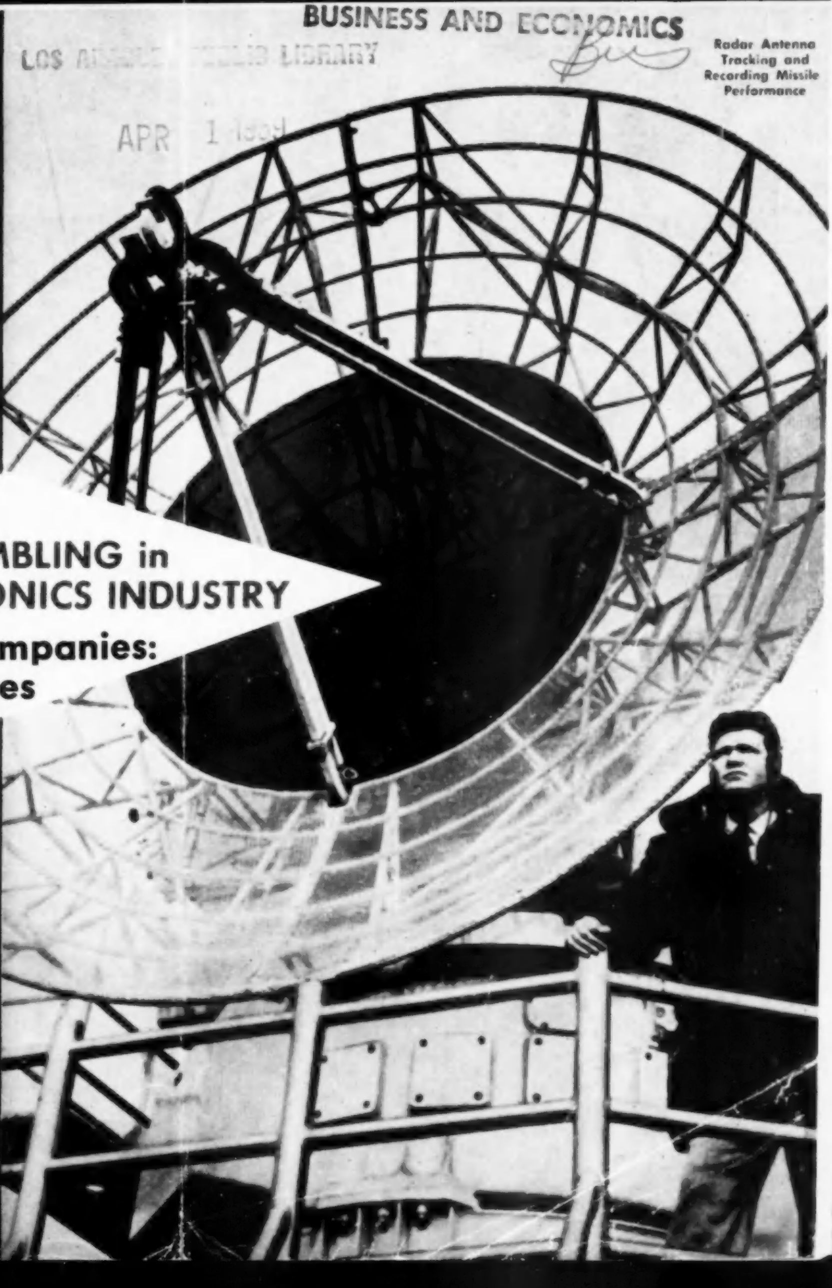
ARE STOCKS STILL PREFERRED TO DOLLARS?

The MAGAZINE of WALL STREET
and BUSINESS ANALYST

ARCH 28, 1959 85 CENTS



Radar Antenna Tracking and Recording Missile Performance

Will
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sidious and creeping destruction of the system that made the United States great

By James J. Butler

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INVESTMENT VS. GAMBLING in DYNAMIC ELECTRONICS INDUSTRY

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akers of Controls - Devices
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THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

Member of Audit Bureau of Circulations

March

Vol. 104 No. 1 April 11, 1959

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Cover Credit: This huge radar antenna on board the S. S. American Mariner is used by the Department of Defense for tracking and recording missile performance on the Atlantic Range. The ship, equipped by RCA, is a floating laboratory with 10,000 electron tubes used in the electronic gear. On board are 50 RCA scientists, engineers and service technicians.

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SUBSCRIPTION PRICE — $20.00 a year in advance in the United States and its possessions. Pan-American, Canadian and Foreign Postage, $3.00 additional per year. Please send International Money Order or United States Currency.

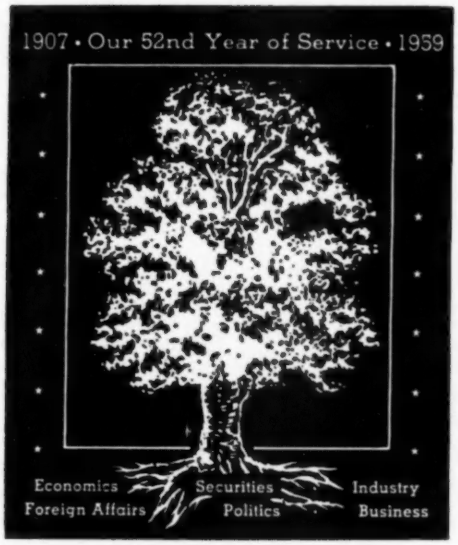
TO CHANGE ADDRESS — Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to your new address.

EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London E. C. 4 England.

Cable Address —Tickerpub

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

OUR ALLIES THE BRITISH . . . The big problem that weakens the West continuously in relation to Russia is not the intransigence of Nikita Khrushchev, but the lack in unity of purpose between Britain and the United States which Khrushchev is always able to turn to his advantage. Every ultimatum he issues is bound to create rifts between the two countries because of a difference in interests. And he takes malicious joy in bringing it about.

His ace-in-the-hole in bargaining with the British is the Crown Colony of Hong Kong, which is England's prize possession, and subject to the dangerous whims of the Chinese Communists. It was the important reason for their independent recognition of Red China, with which the United States has refused to go along, and I believe is tied up with the compromises on Russian demands that Prime Minister Macmillan is bringing to the United States.

The retention of Hong Kong out-weighs all other considerations, for Britain's financial and industrial interests are heavily involved in this area. Of political importance too, and pressing for consummation at this time, is the opposition in the Labor Party which is demanding a settlement with Russia.

Thus, the illness of Mr. Dulles brought vociferous demands from the English press that Prime Minister Macmillan take over the leadership of the West, to further British interests — something that was very much resented and was offensive to this country, and which seems to have stiffened President Eisenhower's backbone. His radio address on the Berlin situation was made just before Macmillan arrived in this country to relieve all doubt, and distinctly advised the world that our President was holding the reins of leadership in the Western coalition.

This speech killed two birds with one stone, for it told Nikita Khrushchev he had to deal with Ike if he wanted to accomplish anything. In fact, I believe that Mr. Khrushchev had intended to release a bombshell at the press conference that he called and timed for the day Macmillan arrived in Washington, but found it the better part of wisdom to deliver a conciliatory message instead.

The simultaneous announcement of our most revolutionary and original secret tests, which enables us to spread a curtain around the earth, unquestionably gave Nikita Khrushchev pause, if he intended, as is most likely, to make new threats against the United States, for it caused him to wonder what else we had up our sleeves that he did not know about.

Altogether, the speech and the announcement reaffirmed the United States leadership of the West—and was further emphasized by the protocol that made it desirable for Vice President Nixon and

(Please turn to page 60)

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907—*"Our 52nd Year of Service"*—1959

As I See It!

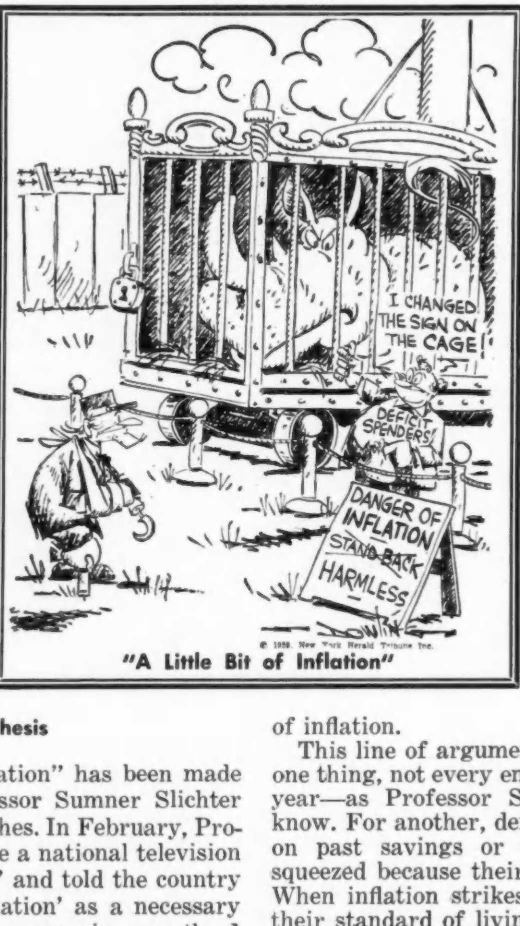
By Michael Stephen

THE "CREEPING" INFLATION CRAZE

IT IS a matter of common observation that the American people from time to time become intrigued with a fad or idea that sweeps the country like wildfire. It is all right when it is something innocuous and amusing like Miniature Golf in the 1920's, the game of Monopoly in the 1930's, Scrabble a few years ago, and Hula Hoops last year. These are diversions in which the whole family can join with the children.

But when it reaches out into the field of ideas it can become dangerous. It is therefore a matter of deep concern when intellectuals — including college and university economists —have this year taken up the idea fad that "just a little inflation is good for what ails us."

The trouble is that this fad, unlike those mentioned earlier, can have most serious consequences for all of us. "Creeping inflation" is not a Hula Hoop that you can play with and then discard when the novelty wears off. We need to critically examine the idea "that prices have to rise year after year"—for the economy to remain healthy, before it takes root in the minds of the people, and wrecks the orderly functioning of the economy.



"A Little Bit of Inflation"

The Slichter Thesis

The case for "creeping inflation" has been made most ably by Harvard Professor Sumner Slichter in numerous articles and speeches. In February, Professor Slichter appeared before a national television audience on "Meet The Press" and told the country that: "I regard 'creeping inflation' as a necessary cost of achieving maximum economic growth. I favor incurring this necessary cost because I think that it's worth doing that." On the surface this sounds reasonable enough. Most people would favor maximum economic growth.

But is *inflation,* even of the creeping variety, the way to economic growth? And how great a cost will "creeping inflation" involve? *It may surprise some people to discover that Professor Slichter regards the major price upheaval since 1939 which has cut the value of the dollar in half as "creeping inflation."* Yet this is what "creeping inflation" does—twenty years of 2 or 3% average annual price mark-ups eventually whittle the dollar away. The hard truth is that this seemingly innocuous "creeping inflation" can cut the value of the dollar to 25 cents or even less.

Professor Slichter and his supporters are willing to accept this prospect. Why?

Asserts Inflation Doesn't Really Hurt

Professor Slichter and proval of "creeping inflation" is based in part on his conviction that, despite the sad experience of millions of Americans and tens of millions abroad, it doesn't really hurt. The loss in the value of savings, pension rights and insurance benefits because of inflation, is dismissed as of little consequence because most people are probably getting an offset in the form of higher incomes out of inflation.

This line of argument hardly needs refuting. For one thing, not every employee's salary goes up every year—as Professor Slichter, a teacher, ought to know. For another, defenseless retired people living on past savings or fixed incomes can be badly squeezed because their income cannot be increased. When inflation strikes they simply have to reduce their standard of living.

In any case, the gains from increased wages, salaries and pension benefit payments are usually already offset by the increased cost of living. Thus, they cannot and do not make up for the shrinkage in the value of savings.

Just "Poor Investment Judgment" — says Professor Slichter

The real measure of Professor Slichter's lack of understanding of how inflation hurts the broad mass of Americans in his contention that "holders of savings accounts" who suffer losses in buying power because of inflation have simply "paid the penalty for poor investment judgement. They could have protected themselves by shifting that part of their savings held as long-term investments into well-managed mutual funds or by investing in equities with the help of competent investment services."

Shocking as it may seem, Professor Slichter is just as critical of U. S. Treasury bonds as an investment. In his "Meet the Press" interview he said frankly "Well, I wouldn't buy Government bonds at the present [interest] rate." This is where "creeping inflation" leads. People who buy Treasury bonds or thriftily put spare cash in savings accounts are considered to have "poor investment judgement." Speculators in commodities or common stocks are the ones who come out ahead while the thrifty, productive middle class loses ground.

The fact is, of course, that the average American is not an investment expert or a sure-footed speculator. It is just as foolish to expect the average mechanic, doctor or white collar worker to be an investment expert as it would be to expect Dr. Slichter to know how to repair an automatic transmission or perform an appendectomy.

One might well ask how the Government would finance itself if everyone was as firmly convinced in the inevitability of inflation as is Dr. Slichter. Where would the States and municipalities get the $7 to $8 billion a year that they now borrow to cover capital improvements. And who would buy the tens of billions of home mortgages which pay a fixed rate of return and which have made home ownership commonplace in the U. S.

It is time we stopped pretending that inflation doesn't hurt or that it is people's own fault if they get hurt by it. A mechanic who does his job well is entitled to have the Government do its job well. We need money we can trust, money that can be used and saved and invested without the aid of a slide rule, calculating machine and a generous amount of speculative genius.

Inflation Does Not Encourage Growth

Professor Slichter and others say a good deal about inflation being a necessary cost of economic growth. To hear them you would never think that one of the most rapid periods of expansion in U. S. history was the thirty years following the Civil War, when prices were generally falling. This was the time when our country was kept busy on the work of reconstruction—opening the West and building the great railroads which knit the continent together. It was an era which saw the foundation of America's industrial might, in which the iron and steel industry doubled, tripled and quadrupled its capacity. Coal output rose correspondingly. In the early 1920's too, when prices were also steady or declining, our economy grew by leaps and bounds—stimulated by the reconstruction work we were doing for Europe, simultaneously with the great wave of expansion that was going on in the automobile and chemical industries. Thus, the fact is that our impressive growth was made on increased industrial activity and not by inflation.

Note the Contrast

In stark contrast are the cases where inflation not only stopped economic growth, but even wrecked the current capacity of the economy to feed and clothe itself. One need only look back to the German inflation of 1923 and the post-World War II inflations in Greece, Chile and again in Germany. When the value of money shrinks away to nothing, the economy grinds to a halt. Inflation always destroys!

Professor Slichter is aware of these examples and the consequences of inflation, but denies that we will ever reach the advanced stage. His confidence that "creeping inflation" can be controlled and kept from developing into all-out flight from the dollar would be more reassuring if we were not losing large amounts of gold to foreign central banks distrustful of the dollar.

Let's Face It!

It is significant that the men with the ultimate responsibility for controlling inflation—the Federal Reserve System's Board of Governors—have no such confidence. Governor C. Canby Balderston has repeatedly warned that "it is not possible to have just a 'little' inflation." Governor Balderston points out that: "Once a community accepts the prospect of continued inflation and begins to make its business decisions in the light of that prospect, the infant ceases to creep. It learns to walk, run and finally gallop—even though the gallop may carry it over the brink of the precipice that everyone agrees must be avoided . . ."

We have not reached the galloping stage. But this is hardly cause for satisfaction. There are already symptoms that the American people are changing essential habits necessary to economic soundness, under the growing recognition of the long-term inflation danger. What the proponents of inflation as a stimulant to growth overlook, is that while an inflationary atmosphere creates a desire to buy goods, and thus stimulates business activity, it is buying built on fear that goods may be more valuable than money. The savings flow is thus endangered. We forget this at our peril, for economic growth depends on capital accumulation and this in turn depends on savings to finance investment.

Short-Circuiting the Savings Flow

The initial impact, as always in the early stages of the inflationary process, is distortion of the composition of the savings flow. This is the significance of the developing shift away from interest-paying forms of savings which has required higher interest rates to keep people buying bonds and mortgages, and the rising demand for stocks which promise capital gains to offset the *(Please turn to page 58)*

Are Stocks Still Preferred To Dollars?

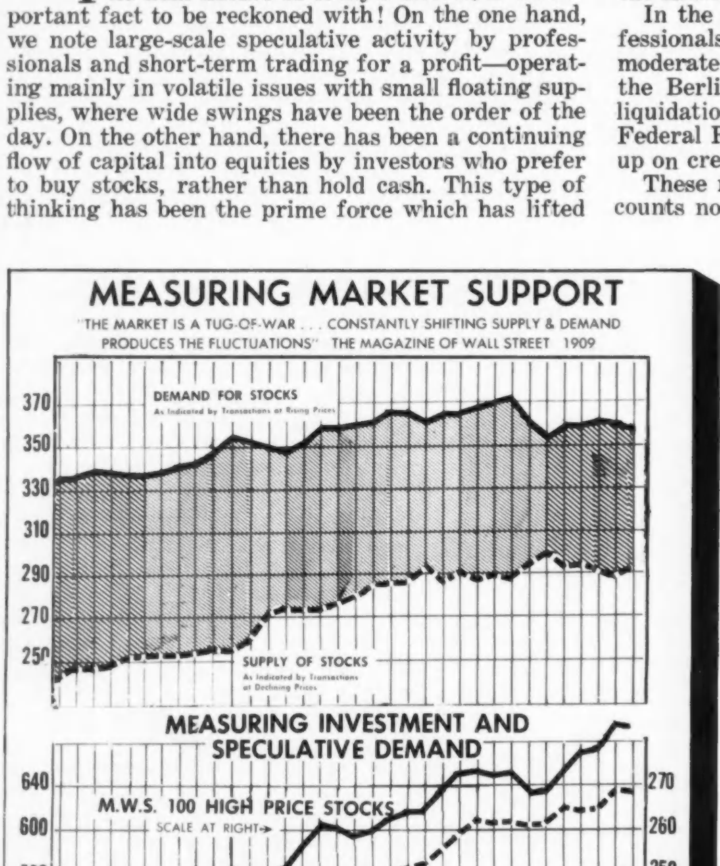
Investment funds seem plentiful. The speculative fever shows no significant abatement. And as long as the prospects of deficit spending and the possibility of a further decline in the dollar continues, we must expect inflationary fears to persist. Increased risk must be recognized. Prudent discrimination is in order.

By A. T. MILLER

The dual nature of today's market is an important fact to be reckoned with! On the one hand, we note large-scale speculative activity by professionals and short-term trading for a profit—operating mainly in volatile issues with small floating supplies, where wide swings have been the order of the day. On the other hand, there has been a continuing flow of capital into equities by investors who prefer to buy stocks, rather than hold cash. This type of thinking has been the prime force which has lifted the market to new pinnacles month after month.

In the past week, however, profit-taking by professionals and large-scale speculators produced a moderate decline, partly registering uneasiness over the Berlin situation. But, for the most part, this liquidation was of a technical nature based on the Federal Reserve Board's evident decision to tighten up on credit to stock buyers.

These new rules will reduce buying power of accounts now held on a less than 90% margin basis, for they will require the accounts to be brought up to this higher level before new commitments can be added. Since any substantial sales of stocks held on the 50% basis would naturally buy fewer shares when reinvested on a 90% basis, demand would be reduced. However, this new FRB dictum may have an opposite effect—it may cause those holding stocks on limited margins to freeze their positions, further thinning the market.



It is impossible to foresee with any degree of accuracy how far speculative excess may go before it topples of its own weight. Measured by price-earnings ratios and dividend yields, most stocks are at uncommonly high levels. But an important decline, as distinct from technical corrections, is unlikely until lessening of inflationary fears causes a general shift in sentiment.

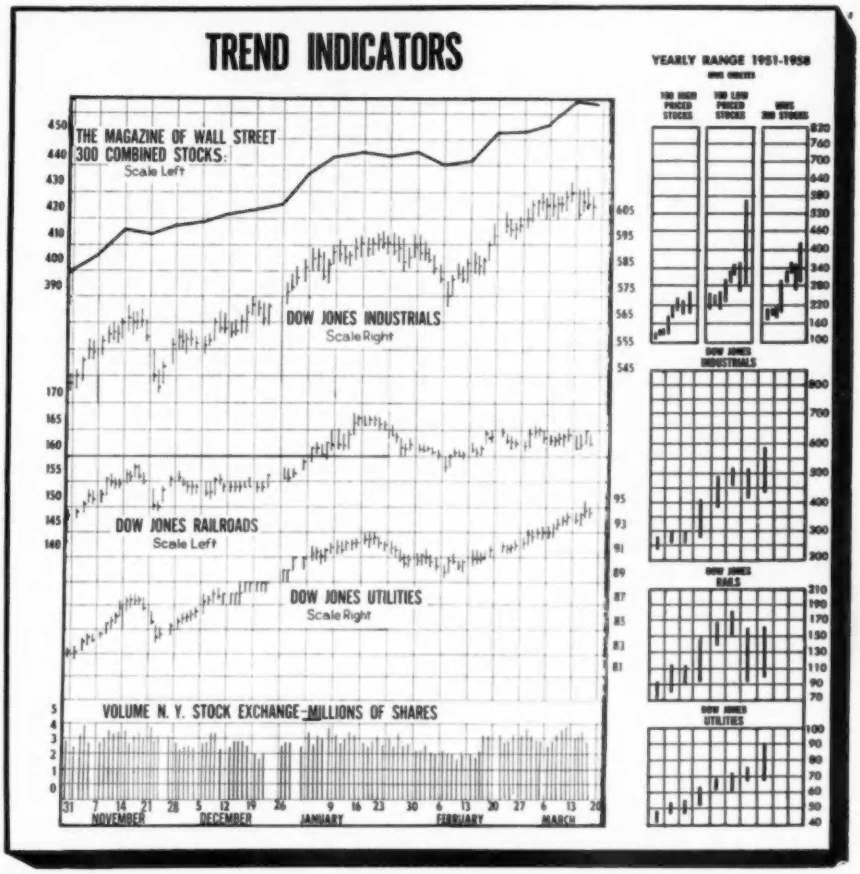
Neither Magnitude nor Duration of Rise Exceptional

The uptrend from the October, 1957, low of the industrial average has now had a duration of about 17 months in a rise amounting to nearly 49% from lowest to highest (intraday) levels. Neither duration nor scope are at all exceptional as compared with past bull markets. To cite only three examples, the major rise of 1942-1946 ran for 49 months and amounted to about 130%; that from mid-1949 to early 1953 for 42 months and 84%; that from Sep-

tember 1953, to April 1956, for 31 months and 106%.

The "something new" about this rise is that it started not from a depressed level, but from the highest bottom turning point in history. As a result, it has taken neither much time nor any exceptionally wide percentage advance to establish a more extreme level, as measured by price-earnings ratios and dividend yields, than was seen in any prior bull market, including the untenable valuations reached around and at the 1929 top.

Of course, there are decisive differences between this situation and that of 1929. There is no similar pyramid of speculation on borrowed money. The banking system is strong, not over-extended. The built-in stabilizers and assurance of direct Federal intervention rule out any really deep, protracted depression.



Rise in Low-Priced Stocks

There have been three periods when low-priced, highly speculative stocks reached levels particularly abnormal in relation to the general market. The first was in 1928, the second in late 1945 and early 1946, the third is now. In each of the first two instances, the "cats and dogs" topped out well in advance of the industrial average. In March, 1957, they topped about the same time as the market, the excess having been more moderate than in 1928 or in 1946. While in the present situation, there is no doubt that some low-priced stocks have reached unjustified heights—the 100 most active low-priced stocks which comprise our index has not as yet shown signs of topping out.

Broad Top Pattern Possible

Since there is no big margin to be toppled, and since the next cyclical downswing in business activity is apparently too far ahead to be a market consideration over at least the medium term, the question—assuming that war will not develop out of the Berlin crisis—is when the fact of excessive stock valuation may be enough in itself to shift the market's supply-demand equation significantly. We believe that if this condition develops, our Market Strength Support barometer will sound a warning, as it did in August of 1957. This market indicator has been consistently positive since January, 1958 — accurately reflecting inflationary investment thinking, even when business activity and earnings were declining.

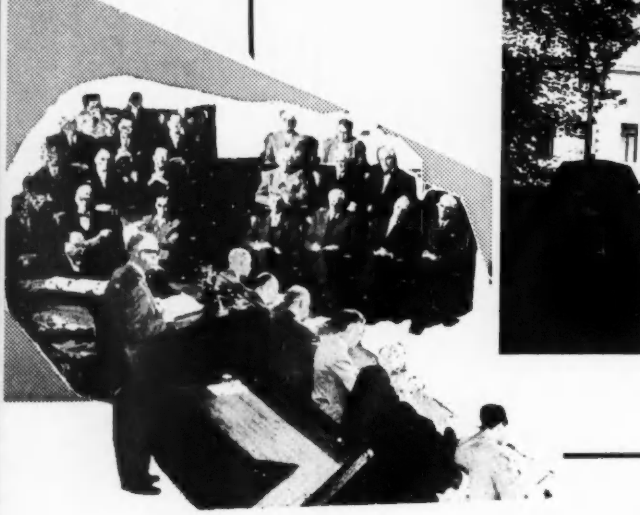
The Business Picture

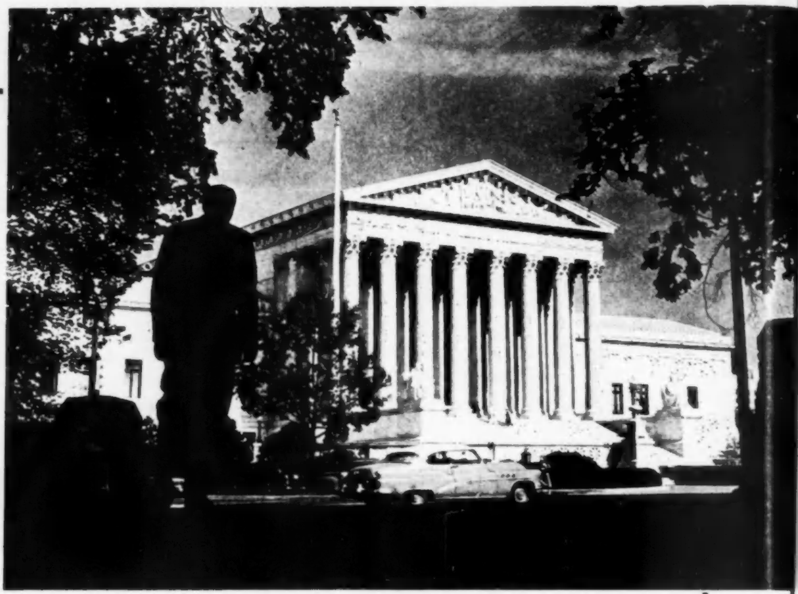
The gross national product, personal income and consumption expenditures have all reached new peaks. The production index is almost back to its pre-recession level. Corporate profits are in a sharp recovery, dividends a small one. The anticipated inflation is still "around the corner"; employment and capital outlays lag; the beat-the-strike rush to buy steel and copper is rasing the level of production temporarily.

Our Recommendations Have Been of a Strategic Character

For more than a year now our recommendations have been designed to give our subscribers every advantage of quality, earning power, good management, and exceptional companies having important natural resources around the world, enterprises expanding abroad, and those leaders highly successful in research which they have used as a spring-board into new and diversified products. We know from subscribers' correspondence that they have bought our selections and profited greatly.

We adhere to our policy of prudent discrimination. We recommend retaining sound stocks with favorable prospects, with a realistic evaluation of risks involved in making new purchases. Reasonable reserves should be maintained, however, to permit participation in new opportunities as they emerge and are appraised for our readers in our subsequent issues.—Monday, March 23.





THE SUPREME COURT OF THE UNITED STATES

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Will SUPREME COURT Decision End FREE TRADE Between the STATES?

By James J. Butler

- **Are Supreme Court Decisions Becoming More Political Than Judicious?**
- **Insidious and Creeping Destruction of the System That Made The United States Great.**

◆ BY APPROVING STATE TAXATION of income earned in interstate commerce, the Supreme Court appears to have promoted a system tantamount to tariff barriers at every border, "Balkanizing" the United States, and endangering the national sales and distribution pattern.

In a series of opinions highlighted by vigorous dissents, a majority of the justices placed their action within the framework of the U.S. Constitution. Enlargement by interpretation, it was tacitly agreed; but, they insisted, creation of no new tax jurisdictions.

That a company operating an established place of business within a state is subject to the income tax on earnings in that state was not disputed. Neither was it contended that a state is not permitted to tax physical properties of an out-of-state company, used within its borders to carry on trade and business.

What the core decision in the series declares is this:

When sales or services are finalized within a state, the revenue becomes subject to the same tax a domestic firm pays on its incomes. The court said it is of no consequence that the contractual offer-and-acceptance took place in another jurisdiction and that the merchandise moved in interstate carriers to the point where the consignee took title, began its "use" and concurrently assumed the obligation to pay ad valorem and other taxes, if any.

The minority of the court answered:

As long as the transactions retain their interstate character, to tax the revenues would be an unconstitutional burdening of the free flow of "commerce."

The Commerce Clause

Before examining the arguments and the decisions reached in the situations before the bench it would be well to review the history of the "commerce clause" of the U. S. Constitution (Sec. 8). It declares: *"The Congress shall have the power . . . to regulate Commerce with Foreign Nations, and*

among the several states, and with the Indian tribes." This provision was written by the Constitutional Convention after much discussion, to put an end to the taxes, duties and other burdens which the States had imposed, under the Articles of Confederation, upon one another's trade and activities. Constitutional authorities agree that if it were not for the commerce clause the states would long since have wrecked the Union.

The commerce clause has been a wise barrier to the activities of states in more than 2000 cases that reached their own courts of last resort or the Supreme Court of the United States. Tax laws, license laws, and regulative laws of infinite variety enacted by state legislatures have been held invalid under the test of interference with the free flow of interstate commerce. That has been true, also, of statutes intended to promote local prosperity; an act, for example, prohibiting pipe-line companies from transporting except between points within the state.

After the Constitution had been written and while it was before the states for ratification, George Washington wrote to Lafayette welcoming the new restriction as an end to "some of the most extravagant and preposterous edicts on the subject of trade." Under the Articles of Confederation, Rhode Island had met all its governmental expenses out of duties it levied at a single port on the commerce *entering from other states.*

As time went on the commerce clause became fully accepted. Citizens of a state naturally favor development at home but they soon came to appreciate that under a Union (if one were to continue) the citizens of one state must look to the advancement of all states.

The clause is said to have been suggested by James Monroe who believed national regulation "necessary to preserve the Union; without it, it will infallibly crumble to pieces." As a member of the Congress under the Articles of Confederation (1783-1786) Monroe worked to secure for Congress the power to regulate commerce among the states and thereby remove what he considered the chief defect in the then existing government.

Commerce, said the Supreme Court in an early case "comprehends traffic, trade, navigation, communications, the transit of persons and the transmission of messages by telegraph — indeed, every species of commercial intercourse." The Interstate Commerce Commission, the Antitrust laws, grew out of this tenet. The constitutional principle came conspicuously into play in the early 30's when the Supreme Court voided the National Industrial Recovery Act (the "Blue Eagle"). Here, said the justices, was a clear violation of the commerce clause: an attempted *Federal regulation of transactions not directly affecting interstate commerce.* So it will be seen that the courts in other years have been as zealous in protecting constitutional rights of states as they were in keeping intact the functions of the Federal Government.

Australia was quick to put a commerce clause in its constitution (1900) and thus end, as to the new states of the commonwealth, the burdens and tariff exactions they had imposed upon one another. Brazil had made its federal government supreme over commerce in 1890, as Canada had done 23 years before. It may be safely said that all important national constitutions have enacted — and preserved — a bar against states interfering with commerce. European countries have seen this safeguard hold nations together, and its absence cause them to fall apart. The toppling of Austria from major power status had as its prelude a history of unwise sectional tariff barriers which ultimately found the country at the mercy of its neighbors when World War 2 came. What happened at that juncture is history, too.

Running diametrically opposite to the course encouraged by the Supreme Court in the Minnesota and Georgia cases recently decided, is the European Common Market. Here is a family of sovereign nations, neighbors, which have found that dropping the tariff wall, rather than constructing or reconstructing one, is the key to the general welfare. In our own case, the philosophy of the Hull Act setting up Reciprocal Trade Agreements, is a challenge to the Supreme Court's rationale on wisdom of sectional right to tax commerce. It is inescapable as one reads the decisions now under discussion that economic considerations favoring the several states were permitted to weigh heavily in arriving at the conclusions reached by the justices. This was one of the major complaints made by the dissenting judges in the determinations by their associates.

DISSENT BY JUSTICE FRANKFURTER

"As one follows the tortuous and anguished endeavors to establish a free trade area within Western Europe, unhampered by interior barriers, against the opposition of inert and narrow conceptions of self-interest by the component nations, admiration for the far-sighted statecraft of the Framers of the Constitution is intensified. Guided by the experience of the evils generated by the parochialism of the new States, the wise men at the Philadelphia Convention took measures to make of the expansive United States a free trade area and to withdraw from the states the selfish exercise of power over foreign trade, both import and export. They accomplished this by two provisions in the Constitution: the Commerce Clause and the Import-Export Clause."

JUSTICE FELIX FRANKFURTER
Washington, D.C. Feb. 24, 1959

EDITOR'S NOTE: Justice Frankfurter's opinion underscores the foresight of the founding fathers and shows they must have had the gift of prophecy. Also it shows how far we are drifting from a realistic viewpoint, which the Common Market and like undertakings are embracing.

A Backward Step

This background may be sufficient to place in proper legal perspective, the Minnesota statute which was enforced against Northwestern States Portland Cement Co., of Mason City, Ia. The pertinent section of the statute reads:

"290.03. An annual tax for each taxable year, computed in the manner and at the rates hereinafter provided is hereby imposed upon the taxable net income for such year of the following classes of taxpayers:

"(1) Domestic and foreign corporations not tax-

able under section 290.02 which own property within this state *or whose business within this state during the taxable year consists exclusively of foreign commerce, interstate commerce, or both.*"

THE LITIGATION

► The facts in the Georgia case for all judicial purposes are the same as in the Minnesota litigation. Discussion of the circumstances of the latter will serve to illuminate. Northwestern States Portland Cement Company is an Iowa-chartered corporation having its principal place of business in Mason City, Ia. It has never qualified to do business in the State of Minnesota, nor has the state insisted that it establish in the state. When the cement company failed, and refused, to file state income tax returns for the years 1943-1948, the tax commission entered an order demanding payment of an amount determined to be due. The company replied that it is manufactures and sells cement at its home office and plant in Mason City; that it maintains only a sales office in Minneapolis, occupied under a lease taken by the home office and used for the purpose of a clearing house for orders customers telephone or mail into this office in the course of interstate commerce.

► The cement company owned no real estate in Minnesota and its only personal property was its salesmen's automobiles, office furniture and fixtures, and good will advertising material. Employees were paid by checks, issued at Mason City — salesmen and office help, a staff ranging from two to six. Other salesmen were hired by the Mason City office and they made daily reports to Mason City submitting for acceptance or rejection there, any orders they received. Sales contracts were drafted in Iowa and sent directly to the customers involved; no employee in Minnesota could accept or reject an order, or pass on a customer's credit. Credits, extensions, collections and adjustments were handled exclusively from Mason City. Merchandise was invoiced and shipped by rail from the Iowa plant direct to purchasers; no company warehouse or other storage existed in Minnesota.

Unrealistic Restraint of Trade

► When the state sued to enforce its claim, the trial court in an unchallenged declaration found that the company's activities "*were an integral part of interstate activities, and all revenue received by it from customers in Minnesota resulted from its operations in interstate commerce.*" The case went to the Minnesota Supreme Court on appeal. There a majority held, in an opinion that may mark a turning point in the interstate commerce system of the United States, that because 48 per cent of the company's total shipments go to Minnesota, that state is within its rights in exacting income tax payment. This appears to establish a new concept of trade and commerce between the states, namely, that where the volume of shipments from one state into a neighboring state is a substantial portion of the shipper's total, that commerce in effect becomes "localized" and thus "separated" from ordinary interstate commerce. The Minnesota Supreme Court did not attempt to delineate the precise volume or percentage of total shipments that would be necessary to effect this localization or separation from commerce. It may be surmised that, at some point, a less extensive volume or percentage of shipments between two neighboring states would continue entitled to the protection of the commerce clause.

► In a 1944 case, the Supreme Court of the United States had laid down the law in a decision which the cement company took to be conclusive on the covered point, or persuasive at least. The court said: "The very purpose of the commerce clause was to create an area of free trade among the several states. That clause vested the power of taxing a transaction forming an unbroken process of interstate commerce, in the Congress, not in the states. The protesting company argued that if each state were to be free to establish its own barriers to interstate commerce by the simple expedient of imposing its own tax, at its own special rate, and under its own formula, upon such commerce, chaos must necessarily result and there can be no area of that "free trade among the several states" so jealously guarded by the Supreme Court for more than a century.

► As recently as 1951 (Norton Co., vs. State of Illinois) the Supreme Court spoke out in agreement with the law and logic expressed by the company in its protest of the Minnesota decision.

The Court observed:

"Where a corporation chooses to stay at home in all respects except to send abroad advertising or drummers to solicit orders which are sent directly to the home office for acceptance, filling, and delivery back to the buyer, *it is obvious that the State of the buyer has no local grip on the seller.*"

► In the processes of litigation, Minnesota contended that the operations of the cement company were typical of methods used by domestic companies. Because of the substantial volume of business carried on there was a steady and continuous flow over the state line and, it was submitted, activities were regular, systematic, and well organized for the purpose of selling products. Counsel for the state said neither tax for the privilege of doing business, nor excise tax, is involved; the levy was presented as a net income tax, limited and apportioned to the income earned within the state.

► "It," said the State's Attorney General, "is non-discriminatory, applying equally to all taxpayers, resident or nonresident, whether engaged in interstate or intrastate commerce, and is confined to that portion of a taxpayer's income earned from business activities which are fairly apportioned to, and localized within, the State of Minnesota."

Decision By Minnesota Supreme Court

► The Minnesota Supreme Court played down the possibility that the domiciliary state, in this instance Iowa, might impose an income tax on *all* of the cement company's revenues resulting, here, in a system of double taxation and suggesting the further possibility that there might be more taxes in other states of the interstate operation. Minnesota, the judges said, excuses payment on income earned in other states. They ventured that a Supreme Court decision in a *(Please turn to page 48)*

Contrasts In Corporate Performance

By Ward Gates

► **UNITED STATES RUBBER . . .** **Is the company now reaching a turning point in its fortunes?**

► **CHAS. PFIZER . . .** **Riding the crest of the tide — are all elements reflected in the advanced price?**

► **OLIN MATHIESON CHEMICAL . . .** **Market laggard — now appears ready to surge forward**

CONTRASTING the performance of the various companies that comprise our economy is an endless source of fascination—and at times an invaluable key to security values. For in the process we discover companies, like Charles Pfizer that are now—and will probably continue to fly high; U. S. Rubber that appears ready to break out into a new growth phase after a prolonged period of sticking to its accustomed last; and Olin-Mathieson, which despite poor recent earnings and several research disappointments, may have reached a new turning point in its fortunes.

Not surprisingly, there is a single key to the contrasting picture for each of these companies—research. But contrary to popular impressions research explains not only the successes, but the failures as well.

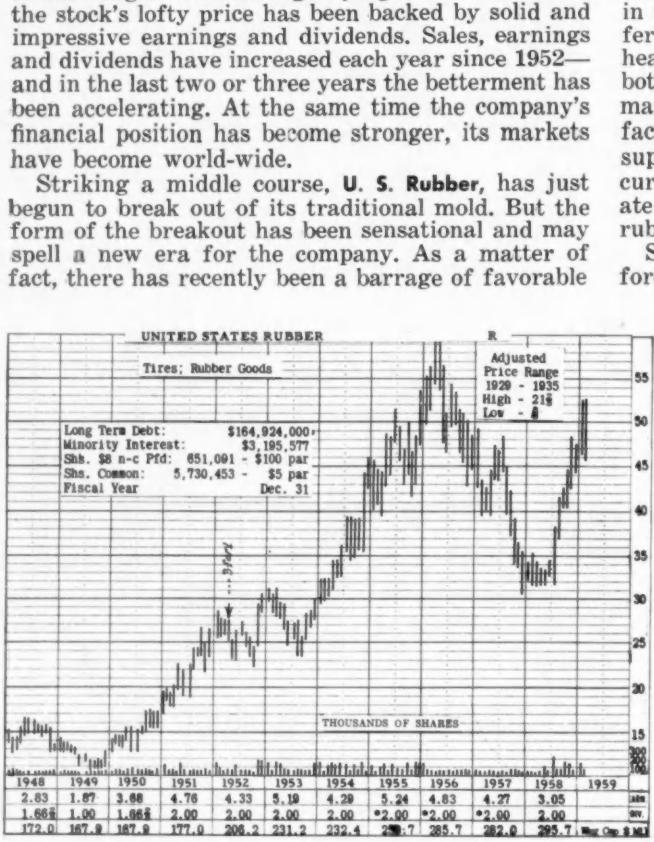
Olin-Mathieson probably illustrates the last point better than any other company. Not quite two years ago the company made headlines with the announcement of a major breakthrough in rocket fuel development. Its borane fuels, packing a terrific wallop, were deemed the ideal fuels for our infant missile industry as well as valuable additives that would add untold power to conventional military aircraft jet fuels.

The world moves fast, however. Within months Russia launched her first Sputnik, the missile program swung into high gear, and solid fuels pioneered by such companies as Thiokol and Aero-Jet General stole the spotlight. Olin's high flying stock backtracked, first as its fuels lost their glamor, and then as the chemical industry generally felt the full impact of the recession.

At the other end of the scale, **Pfizer** has parlayed research into one success after another. Originally

a small producer of vitamins and other basic pharmaceuticals, the company was among the first to spot the tremendous importance of antibiotics as the wonder drugs of modern medicine. By getting there "fustest with the mostest", and then maintaining its position through intensified research and product development programs, Pfizer has remained in the vanguard of the high flying stocks. Moreover, the stock's lofty price has been backed by solid and impressive earnings and dividends. Sales, earnings and dividends have increased each year since 1952—and in the last two or three years the betterment has been accelerating. At the same time the company's financial position has become stronger, its markets have become world-wide.

Striking a middle course, **U. S. Rubber**, has just begun to break out of its traditional mold. But the form of the breakout has been sensational and may spell a new era for the company. As a matter of fact, there has recently been a barrage of favorable news about the company.



Most important, and carrying the greatest impact is the joint announcement by the company and Shell Chemical that the latter had started commercial production of polyisoprene rubber—a product defined as a "man-made duplicate of tree-grown rubber," and that U. S. Rubber is already using part of the output in the manufacture of truck tires.

With its new rubber, U. S. Rubber leaves the ranks of the staid and joins the exciting companies. But of greatest importance is the fact that until now the stock has lagged behind other issues in the rubber group. This situation may soon be corrected marketwise.

Three Excellent Companies

Thus we have three excellent companies in three different stages of development, and each worthy of careful consideration. The woods are full of exciting companies. But they are not full of properly timed opportunities—and each of these companies gives evidence that a right time for purchase may be approaching.

U.S. Rubber

For U. S. Rubber, the announcement of its new product carries all the earmarks of a major technological breakthrough in a vital segment of the economy. Synthetic rubbers of various types have been in use since before World War II, but all have suffered from the drawback of generating too much heat for ideal use under heavy loads. As a result, both the industry and our national defense have remained partially at the mercy of natural rubber—a factor of considerable concern since the source of supply lies half a world away in a politically insecure area. Moreover, prices of natural rubber fluctuate wildly wreaking havoc on the economies of the rubber industry!

Synthesis of polyisoprene has been achieved before by other companies, but U. S. Rubber is the first to bring the new rubber to a stage so advanced that it can compete effectively with natural rubber in the open market.

Polyisoprene is still new and production is small, but in view of its importance to the rubber industry as a whole, and its vital military uses, its growth seems virtually assured.

Importance of Discovery

A stabilizing effect on natural rubber prices and assurance of adequate supplies for rising world demand should result. Plans for development of U. S. Rubber's plantations remain unchanged. The company is now producing less than 100 standard truck tires a day using the new product. But expansion to other sizes and types of tires as well as other products will develop as the supply increases.

Late 1958 Surge

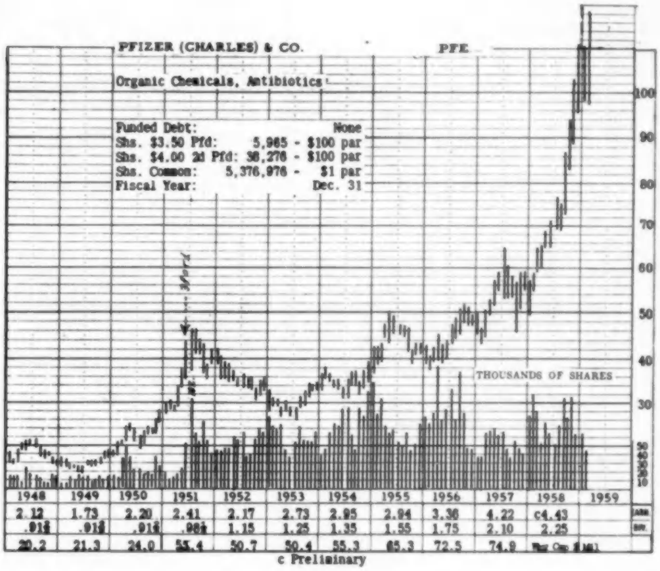
Other favorable news includes much better results for 1958 than generally were expected, aided by a surge in the fourth quarter. Sales moved up close to the 1957 level, despite being down substantially in the nine months ended September. Earnings on the common came to $3.05 a share with $1.25 being earned in the last quarter, against $4.27 a share earned for all 1957. The comparison is much better than indicated at first glance. Operating income actually improved somewhat. Other income, however, was down substantially since 1957 accounts included some $4,200,000 profit from sale of the company's wire and cable business and tax credit adjustments were smaller in the recent year.

Optimism For 1959

Encouraged by the rebound from the 1958 recession and the manifest ability to control costs, Chairman H. E. Humphreys, Jr., looks at the full year 1959 optimistically. The company expects record sales at around the $950 million level and earnings of no less than $4.50 a common share. The first quarter is off to a good start and the operating profit is running at about the level of the final quar-

ter of 1958. Rigorous cost cutting and efficiency programs are looked upon as influences that will help determine further control of operating margins. Replacement tire sales, which set a new record at around 61.5 million units in 1958 appear on the way to establish another all-time high while recovery in sales of new cars means a marked increase in original equipment business for the company.

Tires and related products normally account for almost half of sales. This division of the business divides roughly into three parts; original equipment, almost all General Motors; replacement business with special accounts such as Montgomery Ward, Atlas Tire and Cities Service; and replacements through independent distributors. In areas where strong dealers can not be found, the company is beginning to open its own retail outlets. Other sales come from rubber products and upholstery used in automobile manufacture, rubber and plastic footwear, mechanical rubber goods and chemicals. Texas Co. and U. S. Rubber each own a 50% interest in Texas — U. S. Chemical, which owns a copolymer plant and has a half interest in a butadiene plant in Texas. Plastics are a developing phase of the business.



c Preliminary

The company has been slower than major competitors to expand overseas but has a changed attitude now. With the purchase of a majority interest in Englebert, it acquired the largest American rubber company interest on the European continent controlling manufacturing facilities in Belgium, France and West Germany. Prospects for sales expansion in the European common market are looked upon as most promising, especially since domiciled companies will receive favored treatment in these areas.

Research

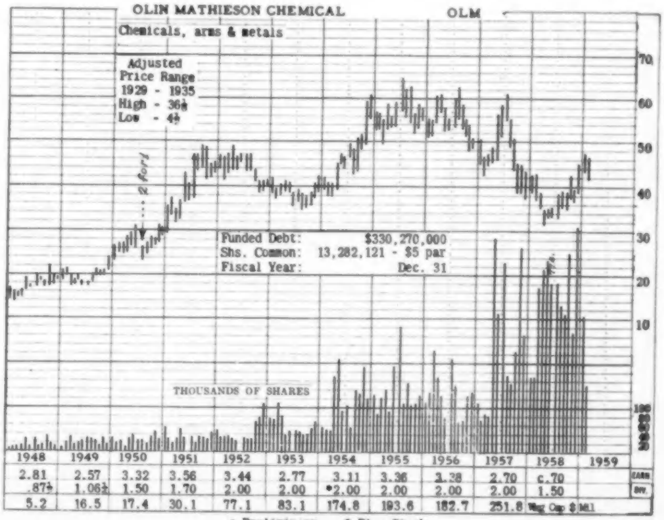
The drive for expansion moves forward with particular emphasis in the research field. Under way is a huge program contemplating the expenditure of a minimum of $120 million within five years. Major objectives include development of passenger car tires of sufficient dependability to warrant elimination of the spare tire for both new and used cars. Also sought is a group of plastics offering qualities of hardness, toughness and elasticity to bridge the gap between rubbers and metals. Through experiments in agriculture the yield of rubber trees in certain areas has been increased over threefold. A program of applying automation to tire manufacture, now underway, aims at reducing process time of a passenger car tire from 48 hours to less than 4 hours!

New processes whereby atomic energy will do the work of heat, pressure, catalysts and chemicals, are aimed at as well as special rubbers and plastics that will stand up to atomic rays. It is not surprising that new products run all the way from rough-treatment conveyor belts to golf balls especially designed for the duffer.

No New Capital Needed Before 1961

Balance sheet figures improved considerably in 1958. Long term debt was reduced $4,373,300 to a total of $164,656,700, which kept the company more than a year ahead on its $4,500,000 annual sinking fund requirements. Working capital rose to $295.7 million from $282.0 million, with cash and equivalent increasing some $15 million. About $30 million will be invested in new plant and equipment during 1959, compared with $27 million last year. Because of the strong cash position, need for new capital is not anticipated before 1961.

Heading the equity capitalization are 651,092 shares of $100 per preferred paying $8 dividends. The 5,730,453 shares of common carry a $0.50 quar-



c Preliminary • Plus Stock

terly dividend rate. A 2% stock dividend was also paid earlier but was omitted in 1958. Its restoration this year is a probability.

Chas. Pfizer & Co.

Pfizer's has been a truly electric performance recently. While taking the recent recession in stride the stock has doubled since its low of last year, and with a three-for-one split to be voted on April 20th a further advance would not be surprising. Nevertheless, careful investors may be inclined to wait for a better buying opportunity. In the following paragraphs it will become evident that Pfizer's future is as bright as its past. Still, stocks do not go up in a straight line, and even normal reactions, when they come, can be painful when a purchase has been ill-timed.

Pfizer's success is comprised of substantial doses of superior managerial foresight, excellent planning to take maximum advantage of a good thing, and careful reinvestment of earnings in areas that should provide the greatest profit potential in the future.

Income Data

	Net Sales	Income Taxes	Net Income	Net Profit Margin %	Earnings Per Share	Div. Per Share
	(Millions)					
OLIN MATHIESON CHEMICAL						
1958	$601.4	$ 8.1	$ 9.4	1.5%	$ .70	$1.00
1957	592.8	31.0	36.3	6.1	2.67	2.00
1956	596.6	34.4	44.7	7.5	3.38	2.00
1955	560.4	37.8	44.5	7.9	3.36	2.00
1954	470.1	26.2	34.2	7.2	3.11	1.50[1]
1953	243.5	16.4	18.7	7.7	3.30	2.00
PFIZER (CHAS.) & CO.						
1958	222.7	12.9	23.9	10.7	4.43	2.25
1957	207.1	20.0	22.9	11.0	4.23	2.10
1956	178.3	14.1	18.2	10.2	3.36	1.75
1955	163.8	11.2	15.3	9.3	2.94	1.55
1954	145.2	7.7	15.2	10.4	2.95	1.35
1953	127.0	11.7	14.1	11.1	2.74	1.25
U.S. RUBBER						
1958	870.6	26.9	22.6	2.6	3.05	2.00
1957	873.5	28.0	29.7	3.3	4.27	2.00[1]
1956	901.2	31.9	31.8	3.5	4.83	2.00[1]
1955	926.1	42.4	33.5	3.6	5.24	2.00[1]
1954	782.5	30.0	27.9	3.5	4.29	2.00
1953	839.8	43.4	32.7	3.8	5.19	2.00

1—Plus stock.

Balance Sheet Data

	U.S. Rubber	Olin Mathieson Chemical	(Chas.) Pfizer & Co. (*)
		(Millions)	
Long Term Debt (Stated Value)	$164.6	$337.8	$ 11.9
Preferred Stock (Stated Value)	$ 65.1	—	$ 7.6
No. of Common Shares Outs. (000)	5,730	13,298	5,406
Common Stock & Surplus	$228.9	$352.088	$134.3
Cash & Marketable Securities	$ 54.7	$ 76.254	17.3
Inventories, Net	$226.6	$149.6	$ 66.8
Receivables Net	$143.3	$ 91.4	$ 43.6
Current Assets	$424.7	$317.3	$127.7
Current Liabilities	$129.0	$ 75.8	$ 58.4
Net Working Capital	$295.7	$241.5	$ 69.3
Current Ratio (C.A. to C.L.)	$ 3.2	4.2	2.2
Net Property	$184.9	$383.7	$ 75.0
Total Assets	$627.9	$786.8	$211.7
Book Value Per Share	$ 42.93	$ 26.47	$ 24.20
Recent Price of Common Stock	57	49	109
Price Range 1958-1959	58¼-31½	49⅝-31½	118½-49¾
Price - Earnings Ratio	18.6	19.4	24.6
Current Annual Dividend	$ 2.00	$ 1.00	$ 2.25
Dividend Yield	3.5%	2.0%	2.1%

*—3 for 1 stock split, subject to stockholders approval 4/20/59. Indicated dividend.

It is not surprising, therefore, that a good part of the $60 million earmarked for expansion in the next three years is headed for ports of embarkation and a trip overseas.

Foreign Drive

The reasons are obvious. Growth abroad is at a much faster rate than at home. Moreover, Pfizer is not alone in seeking to tap the vast potential of overseas areas. Parke-Davis, Merck and Schering are all conducting big programs abroad, and Warner-Lambert already derives about 50 percent of its profits from overseas. Pfizer, therefore, with 40 percent of its sales in foreign areas, will need all its vaunted managerial talent to compete for new markets.

Important steps have of course been taken already. A new plant to cost $2 million is planned by Pfizer International for Egypt to produce pharmaceuticals and agricultural and veterinarian products. In Argentina, near Buenos Aires, a large plant costing $8.5 million is to be completed by mid-year to produce the company's line of drugs and chemicals.

Purchase of most of the outstanding shares of Kembell, Bishop, a British chemical firm, is part of a long range plan to participate in the European free trade area. Acquisitions have recently strengthened packaging and distribution in India, Pakistan and Ceylon. Such bold expansion in countries abroad to meet the Soviet economic offensive is looked upon as urgent by President McKeen, who views the whole area of health progress as a principal battleground of the cold war. The lead the United States has in pharmaceuticals should make efforts here rewarding. *(Please turn to page 57)*

A Special Study of the Position of . . .

State and Municipal Bonds as Investments Today

By Robert Shaw

- **Financial position of various states**
- **Their problems and how they stand**
- **How their bonds are making out**
- **Comparisons between N.Y. State Michigan and California, among others.**

MICHIGAN appeals to its major corporations to pay their taxes in advance in order to meet state officials' payrolls. The governor of New York jams through a new tax program to avert a threatened deficit. California floats a $100 million bond issue in a single stroke. Total general obligation state debt has jumped 245%, from a trifle over $2 billion at the end of World War II to $7.066 billions as of June 30, 1958, in a brief thirteen-year period. Why has this pyramiding of debt occurred? Does it threaten state solvency? How is the debt distributed among various jurisdictions? These questions about state and local debt have been overshadowed by the more compelling interest in our apparently uncontrollable federal deficit, but the items cited above provide a reminder that our states

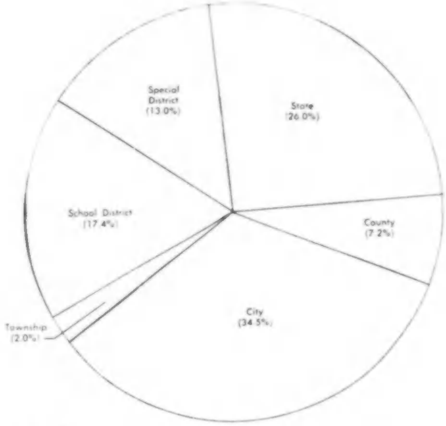
State Government "Faith and Credit" Debt Outstanding

	State Government Gen'l Obligation Funded Debt (Millions of dollars) 1945	1958	Per Capita Debt, 1958 State Gov't Only	State-Local Combined	Per Capita State Income, 1957	Rating	REMARKS
Alabama	42	56	$ 16	$ 92	$1324	A	
Alaska	Nil	1	6	154		—	All but very small fraction of debts held by Federal Housing Agency.
Arizona	4	Negl.	—	89	1750	—	
Arkansas	134	86	41	91	1151	A	All debt payable from state highway funds.
California	93	1,330	95	215	2523	AA	Includes $795 millions veterans' farm and home loans.
Colorado	1	Nil	—	136	1996	—	
Conn.	24	267	116	241	2821	AAA	Includes $134 million "self-liquidating" debts.
Delaware	4	162	438	482	2740	AA	
Florida	Nil	Nil	—	230	1836	—	Constitution prohibits state bonds.
Georgia	9	Nil	—	184	1431	—	
Hawaii	12	95	180	246	1821	A	
Idaho	Negl.	2	3	96	1630	AA	
Illinois	109	198	20	157	2447	AAA	Bulk of debt consists of veterans' bonds payable from cigarette tax.
Indiana	Nil	Nil	—	70	2010	—	
Iowa	Nil	44	15	93	1806	AAA	Entire state debt consists of veterans' compensation bonds.
Kansas	10	Nil	—	152	1787	—	
Kentucky	Nil	72	24	80	1372	AA	Monthly highway bonds secured by highway taxes.
Louisiana	144	159	51	221	1566	A	All debt secured by specified revenues.
Maine	19	32	32	58	1663	AAA	All highway bonds secured by taxes and license fees.
Maryland	24	197	70	372	2156	AAA	Mostly for school construction highway bonds not general obligations.
Mass.	5	879	162	257	2335	AA	
Michigan	Nil	195	27	147	2141	AA	Includes $149 million veterans' compensation bonds.
Minnesota	62	120	35	205	1850	AA	
Mississippi	21	42	18	116	958	AA	All debt for school purposes secured by sales tax.
Missouri	64	71	15	104	1940	AAA	All for state buildings secured by income tax.
Montana	1	6	9	153	1896	AA	Excludes $21 million veterans' bonds secured solely upon cigarette tax.
Nebraska	Nil	Nil	—	93	1818	—	State has never had any debt.
Nevada	Nil	3	15	271	2423	—	Includes $53 million highway bonds secured taxes and tolls.
N. Hampshire	2	75	125	129	1862	AAA	All bonds also secured upon specified taxes.
N. Jersey	65	86	15	168	2504	AAA	
N. Mexico	21	5	6	103	1686	AA	
N. York	421	999	61	317	2578	AAA	Excludes $500 million thruway debt on which state has contingent liability.
N. Carolina	35	230	51	152	1317	AA	Includes $133 million highway bonds secured upon gasoline tax.
N. Dakota	19	8	13	56	1435	AA	
Ohio	6	430	47	222	2255	AAA	Includes $267 million major thorofare bonds secured upon highway taxes.
Oklahoma	24	38	14	103	1619	AA	Debt additionally secured upon cigarette tax.
Oregon	4	129	72	199	1914	AA	Includes $73 million highway bonds secured upon gas taxes and M.V. fees.
Pennsylvania	421	285	24	270	2112	AA	Includes $251 million veterans' compensation bonds.
Puerto Rico	7	61	25	51	468	A	Excludes debt of "authorities".
Rhode Island	21	94	105	220	1990	A	
South Carolina	45	190	76	114	1180	AA	Includes $140 million for education secured upon sales taxes and fees.
S. Dakota	20	Nil	—	31	1531	—	
Tennessee	76	105	28	148	1383	AA	
Texas	8	172	19	193	1791	AA	Includes $137 million veterans' land bonds.
Utah	Nil	Nil	—	100	1694	—	
Vermont	2	24	60	130	1665	AAA	
Virginia	Nil	4	1	106	1660	AAA	
Washington	5	43	15	238	2128	AA	
W. Virginia	65	71	34	97	1554	A	Excludes $70 million veterans' bonus bonds secured upon liquor and cigarette taxes.
Wisconsin	Nil	Nil	—	69	1920	—	State agencies loan $25 million debt.
Wyoming	2	Nil	—	91	2038	—	
Total Average	2,051	7,066	$43	$159	2027†		

*Rating assigned state's general credit obligations.

†Average for 48 states only.

WHO RAISES THE MONEY
Division of State and Local Debt Outstanding by Jurisdictional Levels
1956



WHERE THE MONEY GOES
(State and Local Entities)
1957

and their subsidiary units also face perplexing financial problems. The tax exempt status of state and municipal obligations offers a very strong incentive to upper-bracket investors, and this in itself suggests a review of the state debt picture.

The past generation has seen a startling revolution in the relationship between local and federal government. Men who are as yet scarcely middle-aged can recall when the only federal employee they knew was the postman; the term "government" itself then referred primarily to local jurisdictions, to whom the citizens looked for the public services they expected. Until World War I the federal deficit was negligible. Even as recently as 1931 the federal deficit of $17 billions was hardly larger than the combined state and municipal debt outstanding of $16 billions. But then the federal debt was somewhat more than doubled during the depression decade, and thereafter inflated by World War II and the Korean conflict to its present astronomical level of around two hundred and seventy-five billion dollars.

State Revenues Rose After the War

But it's an ill wind that blows no good, and World War II, however tragic in its major consequences, did perform at least the good office of slashing the debts of most of our states and even of building up surpluses in the treasuries of some of them. The enormous costs of the conflict itself were shouldered primarily by the federal government. Meanwhile, the states enjoyed increased tax revenues from the war-inspired prosperity. Unemployment and relief projects were eliminated. And the simple unavailability of labor and materials obliged the postponement of new highway and public works programs. Thus, while surpluses may not be a great deal less embarrassing for politicians than deficits, there was simply nothing else to do with excess state revenues during the war than to accumulate them in the treasuries. Accordingly, the same military adventure that ballooned the federal deficit left our state governments in their healthiest financial condition in years. To be specific, the indebtedness of state government had been reduced in 1945 to a mere $2.051 billions and aggregate state and local debt to only $13.7 billions. Seventeen states were even in the happy position of having no or only negligible general obligation debt.

But Today . . .

Today, only fourteen years later, this picture has been altered radically. State debt alone (exclusive of revenue issues) has swollen to $7.066 billions, and overall state and local indebtedness must approximate $30 billions. As the population has increased only 20% within the same period, a casual observer might imagine that this heavy borrowing should have fulfilled the most pressing public requirements. But, on the contrary, the tide of state and local bond flotations is still accelerating rather than receding. These units are spending the incomes of future generations faster than ever before; their aggregate debt has doubled in the last six years alone.

Types of Obligations

In reviewing public debt, a distinction must be drawn between general obligations, secured by the full faith and credit of the issuers, and revenue bonds, supported only by the receipts of the projects with which they are associated. The accompanying table of state debt includes only the general indebtedness. "Faith and credit" obligations may, however, be additionally secured upon specified revenues, particularly the gasoline tax and motor vehicle fees. Revenue bonds are used primarily to finance publicly owned utility systems, toll bridges and highways, although occasionally they wander further afield; *Louisiana* even has one issue secured upon the earnings of the state penitentiary. All bonds secured upon property or backed up by the allocation of specific revenues may be described as "self-sustaining;" this is in contrast with indebtedness incurred for such *(Please turn to page 55)*

Inside Washington

By "VERITAS"

REFUSAL of Counsel Robert Kennedy to inform the McClellan Committee more fully on reported attempts to have him "go light" on certain witnesses in the labor-management rackets inquiry, is somewhat less than a public service. It is less than Kennedy and the Senators have been demanding of sworn witnesses, some of whom were threatened with contempt for declining to disclose material facts. While the recalcitrant witnesses "took" the Fifth Amendment on the ground that their answers might tend to incriminate them, Kennedy merely stood silent. But if there truly were bribe offers, unreported, criminal suppression of evidence may be implied unless the youthful, and courageous, investigator clears the air.

WASHINGTON SEES:

Paul F. Foster, President Eisenhower's choice to be United States representative on the worldwide atoms-for-peace organization, can be counted on to press for orderly progress in the development and application of the new source, without foot-dragging, but with no encouragement to other countries that Uncle Sam stands everlastingly ready to pick up the major part of the bill. He has made it emphatic that this government has obligations to its industry and citizenry and does not intend to be placed in an untenable position by a disproportionately high contribution, over an indefinite period of time, toward developments elsewhere on the globe.

The International Atomic Energy Agency has been in existence since 1957. In the current year, the United States will pay 32 per cent of the $6 million budget provided for IAEA. Involved in the mutual help pact is a series of treaties in which the United States contributes materially and otherwise to A-energy development in 40 nations. The job of the United States representative is one of major importance. As successor to Robert McKinney, a New Mexico newspaper publisher, Admiral Foster brings a varied and useful background: naval service as a much-decorated combat admiral and commander of forces; five years in top level offices of the AEC; adviser to the World Bank on engineering matters; an established reputation as a "dynamic organizer."

WELFARE STATE objectives may have been spawned in the New Deal-Fair Deal days as has been charged but there is no evidence that they are being killed off under the Eisenhower Administration. Federal social welfare outlays have tripled, from $7 billion to $21.5 billion in the past 10 years, and still are riding the spiral upward. That would be true if no new welfare legislation is enacted; the "carry" of existing laws constantly increases the cost: social security, veterans' compensation and pensions, public employees' pension plans, public housing, health, hospital plans.

UNCHALLENGED repetition has established in public thinking that the Roosevelt Administration not only invented but also developed to full potency the political and other values of social welfare funds. Actually the cost was about $3 billion annually in the 1935-1940 Roosevelt years, and only $2.3 billion in FDR's last fiscal year, 1945. Under President Truman, the costs rose to $7 billion by 1950. In the next five years the figure jumped to $12.2 billion. By 1960 the cost will have risen to $21.5 billion. Federal social welfare programs have taken the form of direct cash payments to a greater extent than that of other aid forms.

EYE-OPENER to many members of Congress who have been loudly advocating an increase from $1 to $1.25 an hour in the Federal minimum wage law was Labor Secretary James P. Mitchell's documented report that the last boost—from 75 cents to $1 an hour—worked against its own purposes. The Cabinet member showed that many companies were unable to maintain existing staffs at the higher rate of pay and that economy measures came fast and cut deep. Jobs were lost, vacancies went unfilled. It will happen again if the pending boost to $1.25 is voted, Secretary Mitchell counselled.

As We Go To Press

►The AFL-CIO Executive Board must be presumed to have been "talking for the record" when it adopted resolutions calling for a change in law which would require the President to have organized labor representation on the Federal Reserve Bank Board and on the Boards of the 12 districts. Much of the program put forth by labor is, as usual, composed of things to be bargained away in the interest of attaining a few, well-known, objectives. The proposal to pack the Fed doesn't have even bargaining power. Labor publicists went through the formality of advocating action, then dropped it. For one thing, the unions have more immediate problems before Congress to waste effort for token victories: the expression "packing the Fed" is used in a lighter sense; one personnel change in Washington and one in each of the districts could have no noteworthy effect on fiscal policy.

►The value of the Federal Reserve System as now constituted is the existence of a Board which has the capacity, and the will, to move fast. Rigidity would be fatal to the central banking system's monetary controls. But Labor makes a fetish of low-interest rates, regards this an economic panacea. To appoint directors designated as, and responsible to, organized labor is about the same as picking the paid officer of a stockbrokers association to vote on abolishing margin requirements. But the demand for Labor representation provides a vehicle for attacking the system in general, the hard money policy in particular, and bankers generally and particularly. The major premise supporting the AFL-CIO "demand" is that bankers control the Reserve Board. In truth, only one member, A. L. Mills, Jr., was appointed direct from the banking business.

►The law setting up the Board is precise on its constituents:" . . . fair representation of the financial, agricultural, industrial, and commercial interests." Board Member Charles N. Shepardson is a former professor in the school of agriculture of Texas A. & M. Agriculture was mentioned in the basic law for the obvious reason that it is a major borrowing sector in the scheme of finance. With the exception of Mills, the banker, and Shepardson, the authority on agricultural economics, the membership is made up of men whose background has largely been in the field of regulation rather than as practitioners of banking. Labor is not a borrower in the sense reflected in the law on appointments to the Board. Management is the borrower.

►Since signals may become crossed and spokesmen of Labor start giving emphasis to the objective of Fed representation, it might be well to capsule the contentions made by the unions. They have sought to establish an analogy between an FRB composed of "bankers" and a National Labor Relations Board on which only Labor members might sit. The public would set up a howl, they say, and there can be no dissent on that. Here the "public interest" is enveloped by Labor's protective arm. And, as an afterthought: "Not to mention employers." The public and management are the prime interests but there's another one: "The result of this one-sided control (of the Fed) has been higher and higher interest rates on loans. That's good for the bankers who reap the profits. It doesn't bother the corporations with big reserves. But it does hurt just about all the rest of us: consumers, workers, small businessmen."

►Expensive projects and expansion of welfare government notions are tieing the tongues of congressmen. Practically every member of Senate and House has said a balanced budget is a desirable thing, and it should be achieved if it can be done without letting down the defense guard or abandoning essential government services. But only a small handful has publicly pledged to insure by their votes that disbursements are kept within the range of Treasury income. None seems willing to

forego regional benefits, the demands of pressure groups, and the votes which they believe lie ahead. Some members who enjoyed the reputation for conservatism in public spending in the past have read last November's election returns (their own included) and find little encouragement for thrift. The fear of being "punished" for over-spending has vanished from Capitol Hill!

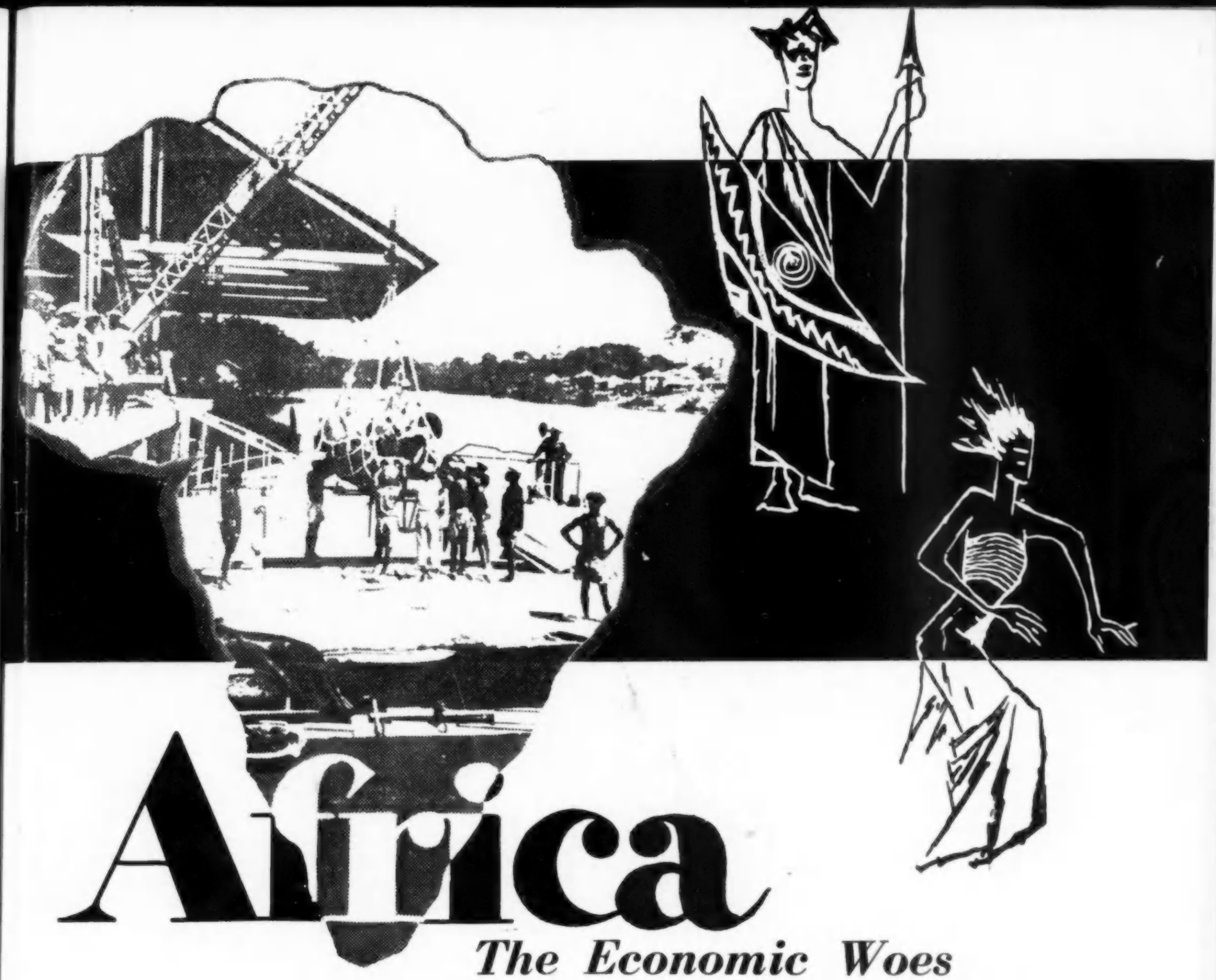
►Rationalizing of deficiency operation on the theory that it has gained the status and respect of national custom is being reinforced by analysis of performance in recent years. Scores of Congressmen send weekly newsletters back home, to newspapers and political leaders, as well as to civic organizations. A typical argument: In January 1957, President Eisenhower submitted a balanced budget for Fiscal 1958. It estimated a $1.8 billion surplus. The actual outcome at the end of the year was a $2.8 billion deficit. In January of 1958, the President submitted another balanced budget. The final January figures show that we will have a $12.8 billion deficit instead of the half-billion surplus.

►One of the reasons the Administration is losing ground in its announced march toward a balanced budget is its lack of imagination in meeting and overcoming Congressional actions, which already have placed the statistics beyond reconcile. As each new project, or departure from the levels set by the President, comes into view, the White House protests that the intended action will unbalance the budget (which the sponsors already know well). There is no determined follow-up; there is no organized drive to win congressmen over to the side of conservative action, and no apparent attempt to mobilize the taxpayers to action. There are no "fireside chats" such as FDR used effectively to go over the head of Congress and direct to the people.

►The Federal situation continues to become aggravated by financial problems asserting themselves in the State Houses and in the City Halls. Industry has bailed out Gov. Mennen Williams of Michigan; Gov. Michael DiSalle of Ohio, has long been toying with a request for similar, unprecedented, aid; Gov. Nelson D. Rockefeller has chosen the hard but honest route—taxation. Today the combined governmental tax take in the country—Federal, state, and local—amounts to more than 26 per cent of the national income. The cash expenditures of the Federal Government alone constitute about $95 billion in a gross national product of roughly $450 billion. In constant dollars the gross national product has more than doubled from 1929 to 1957, but total Federal expenditures have increased twelve times!

►Insistence that defense dollars be stretched has bi-partisan support. The disagreement comes as to method and goals. But there is another problem: advocates of wiser use of national defense money aren't always talking about the same thing, and seldom are speaking of the same amount. It is rather generally accepted that the defense item for next year will be about $40 billion. Within that figure there is little area for saving. Unless, that is, there should be a collapse of the cold war and a general demilitarization. The figure, however, is only part of the story: when we add to direct defense expenditures the other bills that must be paid for past wars and for international security for the free world, the total comes to 77 per cent of the projected budget.

►The margin for savings, after sequestering the funds for direct and collateral defense requirements, is relatively small. Yet it embraces almost the whole field of permissible cutting. The opportunity is there; whether the will exists, will be found in the next three months. The space age is here, and with it the need for spending much, and the temptation to spend even more. Congressmen must pick and choose—and delete, if there is not to be an overwhelming deficit—among programs of education, health research, rebuilding of down-at-the-heels cities, irrigation of farm lands, development of energy, construction of highways and airways. These are among the direct appropriations. They don't exhaust the area of public action in which costs of remaining afloat could become a millstone: higher minimum wages, extended Social Security benefits ,more and burdensome controls over business. Not Federal budgetary outlays but drawing on the same earnings, incomes, and savings.



Africa

The Economic Woes of the Newly Independent States

By Jerry T. Bigosinski

- **Resources Country by Country**
- **Need for Capital, Technical and Administrative Know-How**

A TIDE of unrest is sweeping Africa. From the Algerian hills to Johannesburg's crowded streets and from the Congo estuary to Nyasaland's native farms, African nationalism is on the move. Sensing a new political climate, Africa's leaders demand freedom now. "Civilized or not civilized, ignorant or illiterate, rich or poor, we, the African states, deserve a government of our own choice. Let us make our own mistakes, but let us take comfort in the knowledge that they are our own mistakes" said Kenya's Tom Mboya recently addressing a Pan-African conference at Accra.

Few people today will deny the right of Africans to shape their own destinies. But the "balkanization" of the African continent into a score of politically and economically untenable units is hardly the way to do it.

Political independence is not a panacea. Certainly, there is more to it than to wave one's flag and to print postage stamps. Often, for each problem it solves it creates several new ones. And the going is not made any easier by making promises which cannot be kept. In Africa, as elsewhere, political stability should be firmly anchored to economic viability. Political freedom, unrelated to economic reality, invites trouble and may lead to chaos.

In this context, most of the would-be African states are not yet ready to go it alone. By and large, their economies remain at or close to the subsistence level. Poverty—the only thing they all share in common—cannot be banished by political decree. On the contrary, things are likely to get worse before they get better.

The fact that the dependencies push on with political demands despite their economic unpreparedness does not alter the problem. Indeed, it focuses attention on the crucial question of how to assure the economic progress required by the political changes.

What Are Africa's Main Problems?

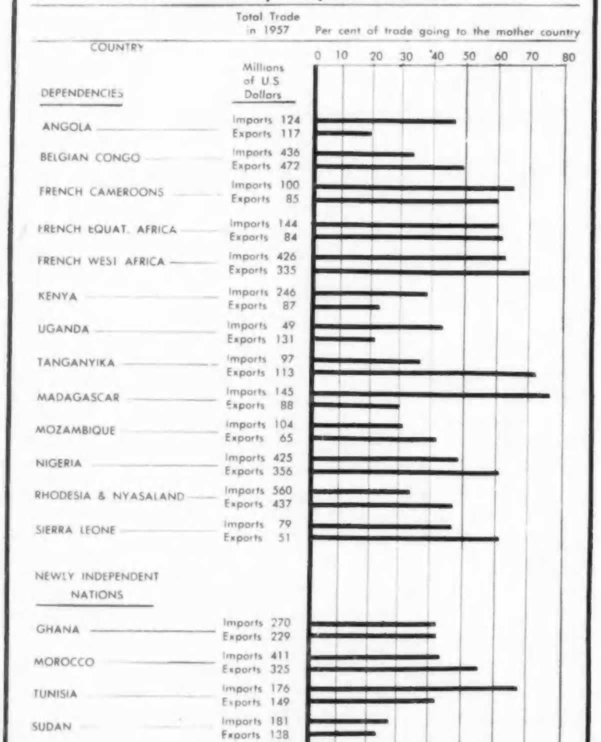
The four wheels of African progress are capital, trade, know-how and political stability. All four are needed if Africa is to fulfill its promise. Until independence was achieved it was the duty of the mother country to provide these. But from then on each new nation is on its own. The extent to which it succeeds may well determine its survival.

Capital — Domestic sources of capital are practically nonexistent. It is estimated that at least 70 per cent of Africa's agriculture, which provides a livelihood for the bulk of the population, is still at the subsistence level. And, as long as production is consumed at the source, there will be no surpluses to sell or save.

Thus, in the days ahead emergent African states will have to look abroad for help just as they did in the past. But, while formerly their colonial status assured them of a steady flow of public and private funds from the mother country, no such arrangement can be expected to continue after the umbilical cord has been cut. In fact, a recurring backwash of political independence has been the termination of public aid and some disinvestment of private capital.

Still, the former mother countries are likely to remain the most important sources of capital. But negotiations will be needed to determine the volume and to safeguard the flow. U. S. aid can also be counted on to help. Then there is, of course, the prospect of Soviet aid, which has already been offered. In the long run, however, the flow of private capital from abroad and the rate of capital formation at home will provide the best climate for further growth.

Foreign Trade Ties of African Dependencies and Newly-Independent Nations



Trade — To grow, Africa will also have to trade. Export earnings generate savings, speed up public investment, and attract foreign capital. They also encourage a shift from subsistence, to higher living standards—and producing for markets.

But foreign trade does not grow by itself. Marketing facilities and the transportation network must be expanded and more efficient agricultural techniques adopted. Emergent African states would also be wise to minimize dependence on a single crop for their income. Sooner or later, price fluctuations will cause hardships and might lead to political turmoil.

Also, the initial effects of independence on foreign trade are likely to be adverse. Free-entry privileges, easy export financing and other "fringe benefits" of the colonial status will be gone, or limited. Stiffer competition is likely to follow.

Know-how — No transformation of African economies can be hoped for without technical and managerial know-how. Under the colonial system nearly every form of organized activity, apart from local government, was run by the whites. They were—and still are—the entrepreneurs, administrators, experts, advisers, traders and teachers. Most of them came to Africa as public servants and will return home when no longer needed there by their governments.

At present there are few Africans qualified to take their place. Illiteracy, ranging from 75 to 100 per cent, will delay economic growth for a long time. The new African states would do best to persuade the white technicians and managers to stay. Meanwhile, a determined effort to develop native technical and managerial ability must be made.

Political stability — Independent Africa is in danger of trying to do too much too rapidly. Politically, there is the temptation to replace the slower democratic processes with authoritarian regimes. In the international field, the prospect of playing both sides of the street to promote self-interest remains strong. But the political uncertainty which would result, could easily deter economic progress.

A Country-by-Country Survey

In a span of less than 10 years, six African states —Libya (1951), Sudan (1956), Tunisia (1956), Morocco (1956), Ghana (1957) and Guinea (1958) — have gained independence. Their experience in self-government has varied. But, as will be seen below, many of their problems have a common source.

Libya — It will take about 30 years, a recent Carnegie Foundation field study reported, before Libya's economic problems will become her own. Until then, they will continue to provide headaches to American, British and U.N. aid administrators, whose responsibility it is to keep Libya's economy going.

Libya's 1.2 million Arabs became independent largely for lack of a better solution of what to do with the former Italian colony. Italy itself renounced any claims to Libya after having sunk nearly $1 billion there in the thirty years between 1912-1942. This vast piece of real estate —ten times

the size of New England— is 90 per cent buried under the Sahara sands. Nearly all of Libya's agricultural activity, and there is very little else, is concentrated on a narrow strip along the Mediterranean Sea. When the country became independent in 1951, it had the dubious distinction of being the poorest sovereign country in the world. Today, seven years and 70 million aid dollars later, the per capita income has been inflated from $35 to about $100, but the economy remains shaky.

Foreign military bases, U. S. and British, are Libya's principal source of foreign earnings. In 1957, expenditures of foreign military personnel stationed there provided $18 million, compared with $13 million earned in foreign trade.

All this could change if the recently unearthed iron ore and oil deposits could be commercially exploited. Four U.S. companies —Richfield Oil, Cities Service, Continental, and Ohio— operating jointly have made a few minor oil strikes. A major oil discovery would undoubtedly benefit the country, but more than that would be needed to make Libya economically viable. Meanwhile, to exist, Libya will have to depend on foreign subsidies.

Sudan — The Sudan was relatively well prepared for independence. It had a well functioning political system and a competent public administration. It also had an integrated agricultural development plan to which economic growth was anchored.

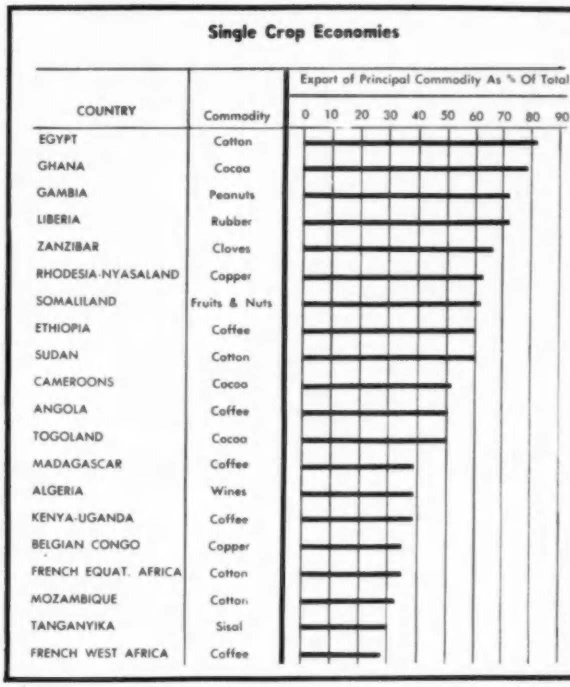
But, like Ghana, the Sudan has a typical single cash crop economy. In the case of the Sudan it is long staple cotton, of which the country is the world's second —after Egypt— largest producer, and which constitutes almost 70 per cent of Sudan's exports.

As long as the demand in world markets for the Sudan's cotton was maintained, the country enjoyed political stability and economic growth. But when, following the Suez crisis, the Sudan tried to fix cotton prices at artificially high levels, the demand dwindled and the Government faced a rapidly mounting cotton surplus. The economic difficulties were climaxed in a political coup last November, bringing the military regime of General Abboud to power.

The substitution of actors does not save a poorly written play. To assure a balanced economic growth the Sudan should not rely on the expansion of cotton production, which only intensifies the country's economic vulnerability. The diversification of agriculture and promotion of light industry suggest themselves as logical alternatives.

Ghana — Ghana's "experiment" in freedom is being watched closely by Black Africa. In this Oregon-sized laboratory, 4.5 million people and Dr. Krume Nkrumah are finding out for themselves whether the West's political and economic heritage can be made to work. The success —or the failure— of this experiment is bound to affect the course of developments elsewhere.

Today Ghana still has little basis for national unity other than the hero worship of its Prime Minister. It is Dr. Nkrumah's personality and, more recently, his recourse to totalitarian measures that hold together this geographically, politically and ethnically divided republic. Engaged in the process of molding a nation, Dr. Nkrumah finds capitalism "too complicated a system for a newly independent



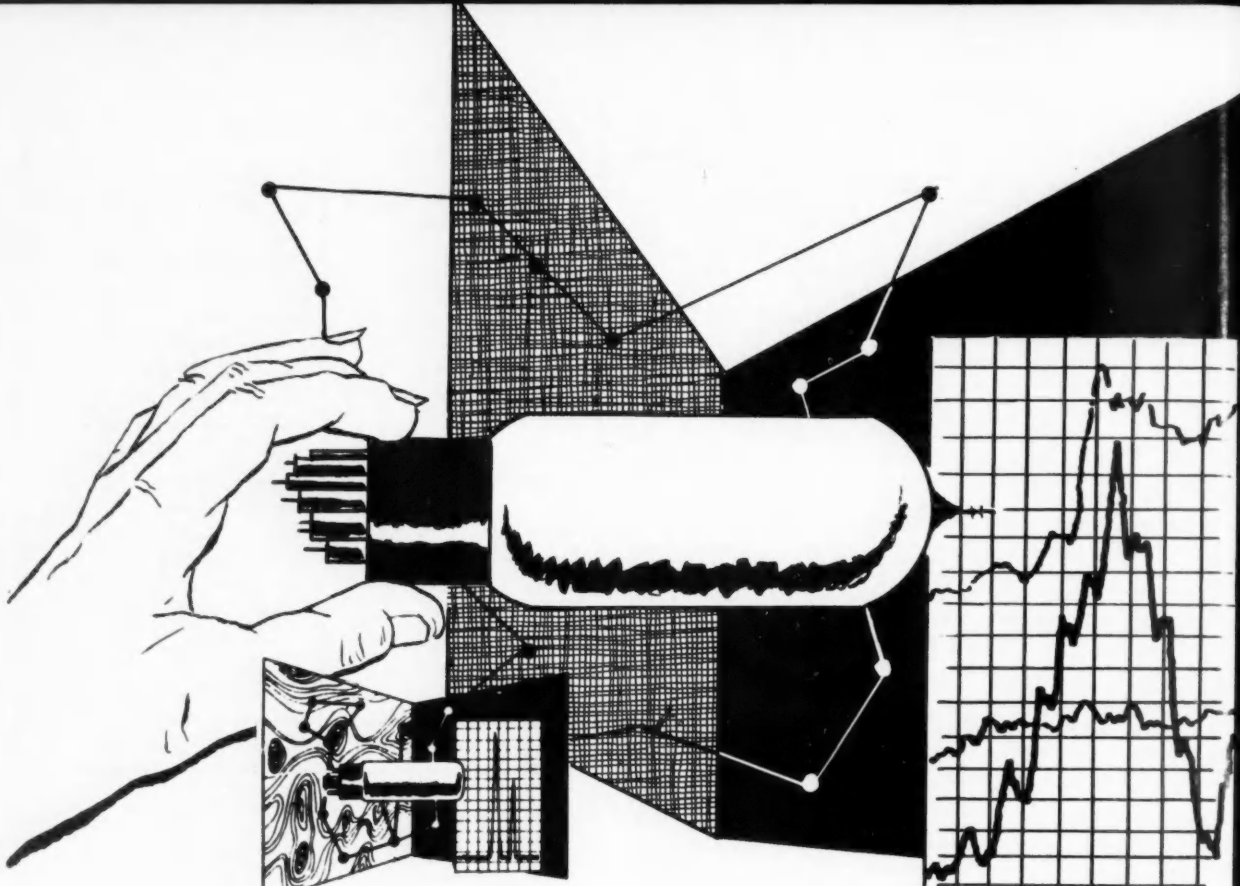
nation." Instead, he prefers a "socialistic society based on social justice and democratic constitution," able to use "emergency measures of a totalitarian kind" when needed.

Economically, the country still stands in the shade of the cocoa tree. Cocoa is Ghana's breadbox and its treasure chest. It accounts for 70 per cent of the country's exports and the cocoa export tax pays for the bulk of Ghana's economic development. Unwilling to depend on one basket for all of its eggs, Ghana has undertaken to diversify its economy. To attract foreign investment, taxes have been lowered and guarantees against expropriation provided.

To date, the most grandiose scheme has been the Volta River project. It aims to combine the vast hydroelectric power of the Volta River with the large bauxite deposits nearby, to make Ghana an important aluminum producer. If materialized, this project could become a springboard to industrial prosperity. The blueprints have already been made. All that is needed is money, some $850 million to be exact. British, Canadian and U.S. concerns have expressed interest and last year President Eisenhower promised Prime Minister Nkrumah to examine possible ways of financing the project. This was done in the hope of attracting private U.S. capital but, coming at a time of a worldwide glut in aluminum, it did not bring the hoped-for response.

While the Volta River project is admittedly the most promising "bootstrap" operation, there are other less spectacular ways to advance and diversify Ghana's economy. It would certainly be a tragic misfortune if the project were allowed to become the "Aswan Dam" of West Africa.

Guinea — This Colorado-sized republic with its 2.5 million people is economically better equipped to face the future than most other African countries. Its present economic base is *(Please turn to page 44)*



ELECTRONICS
Makers of Devices and Controls

By John R. McCracken

- **Dynamic progress through research—problems of obsolescence —toll it takes on net earnings**
- **Companies that are the leaders and the runners-up**
- **Varying earnings-dividend position of the individual companies —and outlook**

JUST a cursory glance at recent stock market activity is ample testimony to the fascination electronics holds for investors. Since the beginning of the new bull move that began in the Spring of 1958 many key electronics issues have tripled in value and scores more have at least doubled. Moreover, a handful have joined the missile stocks and soared off into the "wild blue yonder" well out of the range of such normal instruments of value as price-earnings ratios, earnings and dividend outlook and plain common sense.

Apparently, however, the fascination the field holds for investors is matched by the attraction it has for corporate managements seeking diversification. Each year, as a matter of fact, as new companies enter the field the problem of delineating the industry and identifying the companies that comprise it, become more difficult. Just a few year ago it was easy. Today, however, the list of important contributors to the electronics field includes companies usually associated with such diverse industries as auto parts, railway equipment, roadbuilding equipment, chemicals, aircraft, scrap metal specialists and textile corporations.

Moreover, the problem of isolating the companies in each segment of the industry becomes increasingly more complex. For example, RCA is the largest factor in the radio and television industry, but it is also a major producer of controls and devices and a prime contractor in the Air Forces' Project 480L (a world-wide anti-missile communications network). Minneapolis-Honeywell is one of the leading manufacturers of control devices, yet 10 percent, or more, of its assets are invested in its Datamatic Division, a growing factor in the computer and business machine field. And Tung-Sol Electric, which until now has been classed essentially as a tube manufacturer, now bids fair to become a major military contractor and a growing factor in the semi-conductor field through the development of a "cold-cathode tube" which may well replace the transistor in many of its applications.

Leading Companies Making Industrial Devices and Controls

	—Earnings Per Share—			—Dividends Per Share—					
	1956	1957	1958	1956	1957	Current Annual Div. *	Recent Price	Div. Yield	Price Range 1958-59
American Bosch Arma Corp.	$2.43	$2.67	$2.50	$1.00[5]	$1.05	$1.20	38	3.1%	39 -19⅝
American Chain & Cable	6.80	5.93	3.50[3]	2.50[5]	2.50[5]	2.50	54	4.6	55 -39½
American Machine & Metals	2.91[6]	3.18[6]	2.49[6]	1.30[6]	1.37[6]	1.40[6]	41[6]	3.4	42 -23¾[6]
Avco Mfg. Corp.	.62	.70	1.00	—	.10	.40	12	3.3	13⅞- 5⅝
Beckman Instruments, Inc.	1.36[1]	.16[1]	d .70[1]	3%[7]	3%[7]	—	51	—	55½-18⅛
Bendix Aviation	5.04[2]	5.44[2]	4.18[2]	2.40[5]	2.40	2.40	79	3.0	79 -44½
Consolidated Electrodynamics	1.35	.73	d1.11	.50	.40	.40	38	1.0	47½-27⅞
Daystrom, Inc.	2.77	2.57	1.50[3]	1.20	1.20	1.20	40	3.0	43¼-30
Dynamics Corp. of Amer.	.54	.02		.40	.20	—	7	—	7¼- 2⅞
General Electric	2.45	2.84	2.78	2.00	2.00	2.00	80	2.5	81¼-57
General Precision Equipment	1.63	3.03	d .74	2.40	2.40	.85	36	2.3	41 -27
International Tel. & Tel.	1.46[8]	1.56[8]	[8]1.75[3]	.85[8]	.90[8]	1.00[8]	42	2.9	42½-14⅝
Litton Industries	.97[4]	1.51[4]	2.13[4]	—	—	2½%[9]	93	—	94¼-36⅞
Minneapolis-Honeywell Reg.	3.40	3.07	3.23	1.75	1.75	1.75	122	1.4	126½-76
Raytheon Mfg.	.23	1.70	3.08	—	—	5%7	65	—	70⅛-21½
Robertshaw-Fulton Controls	2.82	2.36	2.40	1.50	1.50	1.50	39	3.9	40½-22¼
Servomechanisms, Inc.	.81	.41	d .05[3]	.40	.40	—	16	—	18¼- 6⅝
Square "D" Co.	2.28	1.74	1.25[3]	1.03	1.00[5]	1.00	32	3.1	33¼-20⅛
Texas Instruments, Inc.	.72	1.11	1.84	—	—	—	79	—	86 -26¾
Westinghouse Air Brake	2.86	2.89	2.10	1.20	1.20	1.20	32	3.9	35½-17⅞
Westinghouse Electric	.10	4.18	4.25	2.00	2.00	2.00	77	2.5	80½-55½

d—Deficit.
*—Based on latest div. rate.

[1]—Year ended June 30.
[2]—Year ended Sept. 30.
[3]—Estimated.
[4]—Year ended July 31.
[5]—Plus stock.

[6]—Adjusted for 2 for stock split, subject to stockholders approval 3/24/59.
[7]—Paid in stock.
[8]—Adjusted for 2 for 1 stock split.
[9]—Initial dividend, payable in stock.

American Bosch Arma: New importance as a defense supplier indicates further growth. Good backlogs should lift earnings again in 1959. **B1**

American Chain & Cable: Moderate recovery indicated for current year; good prospects in automation should aid results. **B2**

American Machine & Metals: Increased defense business and growing demand for instruments and gauges should cause recovery to 1957 earnings levels. **B2**

Avco Manufacturing: Strongly dependent on defense orders. Diversification into missilry has paid off. New contract awards assure excellent earnings in 1959. **C1**

Beckman Instruments: Long term prospects are excellent. Earnings growth will be slow, however, under impact of high development costs. Some improvement seen in 1959, however. **B1**

Bendix Aviation: Important defense contractor, should see earnings expand in 1959 in military and civilian business. **A1**

Consolidated Electrodynamics: Extraordinary costs dropped company into deficit column for 1958. Increased defense spending should aid volume and earnings. **C2**

Daystrom: Recession prevented looked-for earnings progress in 1958, but it should materialize in 1959. Company is now primarily an electronics producer. **B2**

Dynamics Corp.: Company has unimpressive earnings record and no dividend has been paid since June 1957. The stock is highly speculative. **D2**

General Electric: An outstanding leader. Its huge research program assures its continuing commanding position in the years ahead. **A1**

General Precision Equipment: Several years of backward earnings should be reversed in 1959. Company is an important defense contractor. **C1**

International Tel. & Tel.: Company's world-wide operations assure heavy participation in defense networks. Higher earnings ahead. **B1**

Litton Industries: Fast growing electronics producer. Company has grown from acquisitions primarily. Still too new and untested for average investor. **C2**

Minneapolis-Honeywell: Top producer of regulating devices, company should move on to new heights in 1959. **A1**

Raytheon: Now a major defense contractor, company is again seeking commercial outlets. Strong upward earnings trend should continue in 1959. **B1**

Robertshaw-Fulton Controls: Excellent market for home appliances plus increasing military business assure higher returns in 1959 for this well situated company. **B1**

Servomechanisms: Competition has hurt operations. Small but not too significant earnings improvement ahead. **D1**

Square D Co.: Operation should improve in 1959, and could boom if a new wave of capital expansion develops. **B1**

Texas Instruments: Transistor growth will slow down, but good record of new products development means continued growth. **B2**

Westinghouse Airbrake: Still dependent on rail and roadbuilding equipment, but electronics is growing in importance. Overall operating improvement expected in 1959. **B1**

Westinghouse Electric: Good level of appliance sales and new pick up in utility equipment adds up to good year in 1959. **A1**

Ratings: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

[1]—Improved earnings record.
[2]—Sustained earnings record.
[3]—Lower earnings record.

The difficulty of classification, of course, holds the key to the field's fascination. For it offers at once the possibilities of enormous (and quick) profits through the development of new and revolutionary devices—and the danger of sudden (and equally quick) obsolescence. A month or so ago, this latter point was demonstrated dramatically in the stock market. When Tung-Sol announced its new tube, the stocks of important transistor manufacturers plummeted. Their subsequent recovery followed evidence that the new tube would displace transistors for specialized purposes only. Nevertheless the quick response to the news indicates how sensitive the market is to technological displacement.

Importance of The Military

Another factor that helps explain the popularity of the electronics stocks is their intimate association with the defense effort, and especially with the missile program. In 1957, most of the stocks in this group were hurt by a slowdown in defense expenditures and the stretchout of orders the government imposed for budgetary purposes. Since the launch-

ing of Russia's first Sputnik, however, and the activation of an all out missile effort in this country, the electronics stocks, along with their missile cousins, have received the lion's share of press notices as contract after contract was channeled into the industry.

Moreover, the impressions gleaned from the press were far from erroneous. In 1958, the defense effort absorbed a full 50% of the $6 billion worth of electronic equipment produced in this country—or three times the total output of the electronics industry just 10 years ago. And if the pace continues as it is going now, the military will probably absorb an even larger percentage of a projected $15 billion output ten year hence.

Paradoxically, these enormous sums have not produced enormous profits for the companies in the industry. A few have reaped extraordinary benefits, but most have found that defense is low profit-margin business, while research costs are increasing at a rapid rate in the never ending race to remain ahead of the field.

As a result the greater rewards are falling to the large, well-entrenched companies with ample financial resources to finance research, and broad enough markets to offset the low profitability of defense business — or to those who have cut out special fields for themselves in which they particularly excel.

Tops In Electronics Field

R.C.A. is undoubtedly an outstanding company in the controls and devices field. And the recent announcement of its newly developed Nuvistron places the company in the vanguard of a whole new field in electronic tube and semi-conductor development. Its giant strides in the field of communications was noted by the development of the tiny electron tube, which has opened great new vistas for this company in the production of television, radio, communication receivers and giant computors.

Because of R.C.A.'s considerable diversification and its special interest in the television field, we are covering this company more fully in our feature devoted to that section, and appearing in this issue.

Consistent Minneapolis-Honeywell

In the first category, **Minneapolis-Honeywell** stands out. For years the company has been the leading manufacturer of industrial controls such as flow meters and pressure gauges. Its name also appears in millions of households on the devices that regulate today's automatic furnaces. In addition, the company is one of the major producers of automatic controls for aircraft and missiles as well as safety electronic equipment for landing gears and scores of other military paraphenalia.

Over the years, the company has managed to maintain consistently high and stable profit margins, as well as a remarkable unbroken string of years of consecutively higher sales and earnings. Part of this success, of course stems from product mix. For even today, when defense expenditures dominate the industry, Honeywell derives only 33 percent of its revenues from the defense effort. The balance comes from the higher profit-margin commercial market.

Another element in the company's consistent success is the care with which it selects its new endeavors and then the wholeheartedness with which it attacks them once the decision has been made. Thus in relatively short order Honeywell's Datamatic Division has become a major factor in the computer field with a rapidly growing share of this steadily widening new field. (See article on Office Equipment in this issue.)

Comprehensive Statistics

Figures are in millions of dollars, except where otherwise stated.	Avco Mfg. Corp.	Bendix Aviation
CAPITALIZATION:		
Long Term Debt (Stated Value)	$ 23.1	$ 1.3
Preferred Stock (Stated Value)	$ 6.0	—
Number of Common Shares Oustanding (000)	9,222	5,063
Capitalization	$ 56.8	$ 26.6
Total Surplus	$ 64.9	$ 189.0
INCOME ACCOUNT: Fiscal Year Ended	11/30/58	9/30/58
Net Sales	$ 275.6	$ 623.7
Deprec., Depletion, Amort., etc.	$ 5.0	$ 10.4
Income Taxes	$ 3.9	$ 21.5
Interest Charges, etc.	$ 1.6	$ 2.3
Balance for Common	$ 9.2	$ 21.1
Operating Margin	7.8%	7.0%
Net Profit Margin	3.4%	3.4%
Percent Earned on Invested Capital	9.7%	9.8%
Earned Per Common Share	$ 1.00	$ 4.18
BALANCE SHEET: Fiscal Year Ended	11/30/58	9/30/58
Cash and Marketable Securities	$ 14.8	$ 22.3
Inventories, Net	$ 56.6	$ 108.4
Receivables, Net	$ 56.8	$ 107.3
Current Assets	$ 128.4	$ 238.1
Current Liabilities	$ 60.3	$ 105.4
Working Capital	$ 68.1	$ 132.7
Current Ratio (C. A. to C. L.)	2.1	2.2
Fixed Assets, Net	$ 50.3	$ 72.1
Total Assets	$ 183.0	$ 325.5
Cash Assets Per Common Share	$ 1.61	$ 4.41
Inventories as Percent of Sales	20.5%	17.4%
Inventories as % of Current Assets	44.1%	45.5%

Raytheon Steps Out Into Space

Among the companies that have cut out special fields for themselves **Raytheon Mfg.** stands out. Just a few years ago the company was a second rate producer of radio and television sets and components. Suddenly it decided to get out and concentrate on military electronics. Managerial foresight with the agressiveness inspired by the advent of Sputnik produced a company well situated as the manufacturer of electronic components for missiles and satellites. Moreover, the know-how gained in the early stages of the missile program allowed Raytheon to bid successfully for prime missile contracts. Currently, it is prime contractor for the Army's *Hawk*, our principal ground-to-air missile defense weapon.

That the company's efforts have been crowned with success can be seen from simple figures. In 1956 sales were about $180 million and per share earnings had fallen to 23¢. By 1958 sales had climbed to $260 million, and seem headed for close to $425 million in 1959, and earnings had soared to $3.08 per share, with $4.00 an easy target in the current year.

Comparing the Position of Leading Electronic Companies

Industrial Devices & Controls						Business Machines				Radio and Television		
General Electric	Minneapolis Honeywell Regulator	Texas Instruments	Westing-house Air Brake	Westing-house Electric	Burroughs Corp.	International Business Machines	National Cash Register	Pitney-Bowes	Motorola	Phi'co Corp.	Radio Corp. of America
…00.0	$ 44.0	$ 9.2	$ 38.6	$ 321.0	$ 79.6	$ 425.0	$ 71.3	$ 3.1	$ 18.0	$ 23.5	$ 249.9
—	—	—	—	$ 46.7	—	—	—	$ .8	—	$ 10.0	$ 14.5
…81	6,987	3,257	4,183	17,180	6,612	11,849	7,068	1,370	1,935	4,069	14,031
…38.4	$ 54.4	$ 12.5	$ 81.4	$ 582.4	$ 112.7	$ 923.9	$ 143.4	$ 6.7	$ 23.8	$ 45.7	$ 292.6
…72.5	$ 159.7	$ 22.3	$ 67.6	$ 586.8	$ 88.6	$ 221.3	$ 58.6	$ 19.9	$ 65.7	$ 79.9	$ 252.8
…/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/28/58	12/31/58
…20.7	$ 328.4	$ 91.9	$ 206.2	$ 1,895.7	$ 292.5	$ 1,171.7	$ 393.7	$ 51.3	$ 216.5	$ 351.0	$ 1,170.6
…24.5	$ 9.2	$ 4.9	$ 5.1	$ 47.7	$ 10.6	$ 177.6	$ 16.7	$ 4.0	$ 3.1	$ 4.6	$ 22.1
…42.2	$ 25.5	$ 6.9	$ 8.8	$ 54.2	$ 5.3	$ 130.0	$ 22.9	$ 4.8	$ 7.5	$ 2.9	$ 29.5
11.4	$ 1.7	$ .5	$ 2.3	$ 11.0	$ 4.7	$ 13.6	$ 3.4	$ .1	$ 1.6	$ 2.0	$ 8.3
…42.9	$ 22.5	$ 6.0	$ 8.8	$ 72.9	$ 6.4	$ 126.1	$ 15.5	$ 4.4	$ 7.3	$ 2.5	$ 27.7
11.2%	14.6%	14.3%	6.5%	6.4%	7.0%	21.7%	10.0%	17.9%	6.8%	1.6%	5.4%
5.9%	6.9%	6.6%	4.2%	3.9%	2.2%	10.7%	3.9%	8.6%	3.4%	.8%	2.6%
13.5%	13.2%	23.4%	7.9%	8.6%	5.2%	17.5%	11.8%	18.8%	10.2%	2.8%	10.4%
2.78	$ 3.23	$ 1.84	$ 2.10	$ 4.25	$ 2.36	$ 10.65	$ 2.19	$ 3.20	$ 3.80	$ .61	$ 1.98
…/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/28/58	12/28/58	12/31/58
…73.4	$ 18.8	$ 10.8	$ 12.5	$ 309.6	$ 16.0	$ 292.5	$ 15.9	$ 3.8	$ 6.6	$ 21.9	$ 114.8
…10.4	$ 88.8	0 6.8	$ 58.2	$ 381.3	$ 101.5	$ 34.2	$ 69.5	$ 7.3	$ 26.6	$ 52.2	$ 139.7
…19.7	$ 72.8	$ 19.3	$ 60.2	$ 308.2	$ 76.3	$ 163.4	$ 69.3	$ 7.8	$ 47.0	$ 58.6	$ 208.3
…381.1	$ 180.5	$ 36.9	$ 132.8	$ 928.1	$ 200.0	$ 490.2	$ 158.7	$ 19.5	$ 92.9	$ 133.9	$ 482.7
…76.5	$ 45.1	$ 18.9	$ 33.9	$ 198.4	$ 97.5	$ 110.8	$ 68.9	$ 12.1	$ 38.3	$ 55.1	$ 174.7
…04.6	$ 135.4	$ 18.0	$ 98.9	$ 729.7	$ 102.5	$ 378.4	$ 89.8	$ 7.4	$ 54.6	$ 78.8	$ 308.0
2.0	4.0	2.0	3.9	4.6	2.0	4.3	2.3	1.6	2.4	2.4	2.6
…12.6	$ 72.1	$ 16.5	$ 40.7	$ 340.6	$ 97.5	$ 734.5	$ 82.9	$ 25.7	$ 27.6	$ 41.4	$ 196.6
…420.9	$ 263.8	$ 53.8	$ 183.8	$ 1,411.5	$ 299.6	$ 1,261.1	$ 202.1	$ 45.8	$ 127.9	$ 182.4	$ 734.2
5.45	$ 2.69	$ 3.32	$ 2.99	$ 18.02	$ 2.41	$ 24.68	$ 2.25	$ 2.83	$ 3.44	$ 5.38	$ 8.18
14.5%	27.0%	7.4%	28.2%	20.1%	34.7%	2.9%	17.6%	14.2%	12.3%	14.8%	11.9%
44.2%	49.2%	18.6%	44.1%	41.1%	50.7%	6.9%	43.1%	37.4%	28.7%	39.0%	28.9%

Interestingly, enough, now that the company has established its success as a military contractor, it is again entering commercial activities via the acquisition route. Just a month ago Machlett Laboratories, which produces high-voltage electronic tubes, was acquired and others will undoubtedly follow.

Raytheon is high in price. Nevertheless, in view of the rapidity of its earnings growth, and the astuteness of its management, it will probably remain at a high premium. Moreover, the projected level of earnings for 1959 makes it highly likely that cash dividend payments will be resumed soon.

GE and Westinghouse

Of course, the entire electronics industry is dominated by **General Electric** and **Westinghouse.** Moreover, their success in maintaining their positions despite the sensational developments that have come from the laboratories of smaller companies is ample testimony to their high investment ratings.

GE's success lies in its diversification and its long record of fine management. In 1958, only 24% of the company's revenues came from defense business, while consumer products accounted for 26%, capital goods 24% and industrial devices 24%. It should be pointed out, however, that even at 24%, GE sold over one billion dollars worth of goods to the government in its role as major supplier of components, missiles, systems and jet engines.

Westinghouse has a more volatile record stemming from its greater reliance on consumer products. Nevertheless, the company is second only to GE as an electrical equipment, components, and appliance manufacturer.

Both companies enjoyed good years in 1959. Westinghouse, still recovering from its disastrous strike three years ago, tightened operating costs and scored a small earnings advance despite a drop in sales. **GE** suffered a minor earnings drop along with its sales decline, but both companies face 1959 with excellent prospects. Defense business appears secure, appliance sales are rebounding and the end of the recession has revived demand for industrial electronic components and devices. Utility equipment shipments will suffer from the low level of orders placed during the recession, but new orders have already begun to climb indicating that this situation will be quite temporary.

Both stocks are high by historic standards, but they are still more attractively priced than many of the lesser lights in the field.

Mixed Picture For Industry

Aside from the two leaders, and a few others, the road to electronics success has been an exciting, but bumpy one for most companies in the field. **Bendix Aviation** was one of the first of the important companies to choose electronics and missiles as a field for diversification. Nevertheless, despite its important place in these fields, and its gradual divorcement from the auto parts industry, earnings growth has been slow in coming. The recession-hit 1958 profits were lower *(Please turn to page 46)*

Electronics ... RADIO and TV

By Stanley Devlin

- Despite better outlook
  - —can TV carry the load?
  - —importance of defense spending
- Appraising General Telephone-Syvania Electric merger
  - —varying status for RCA and Zenith
  - —companies that have turned the corner
  - —the broadcasters
- 1959 outlook for the individual companies

RADIO and television set manufacturers should have a better year in 1959. The high level of consumer income, so well maintained during the recession, is giving rise to a new upsurge in home appliance purchasing that is bound to raise the level of television set sales. Since the ranks of the set producers has been reduced considerably by failure or merger, the surviving few should be in good position to raise their profit figures in the year ahead.

Nevertheless, few of the companies are attractive investments on the basis of television potential. For one thing, except for the longer range possibilities of color TV, there seems little chance of a return to the growth rate that characterized the industry's first decade. Today, the market for receivers is virtually saturated, limiting the demand to the level of new family formation plus normal replacement of worn out sets. Moreover, the spectre of color still hangs over the industry, preventing many potential buyers from investing in a new black and white set, when cheap color may be available shortly. In addition, industry-wide publicity about flat-screen sets that can hang on the wall like pictures also tends to keep the set owner temporarily content with his old set. He will buy, but not until something radically new actually comes along.

Fortunately, however, increased profitability for the set makers is no longer completely dependent on the sale of television or radio sets. Defense is now the bright spot on the industry's horizon, and most of the companies are moving forward with alacrity to cash in on the bonanza.

The recent merger of **Sylvania Electric** and **General Telephone** provides excellent insight into the economics of television and defense. Sylvania has long been a leading manufacturer of television tubes, picture tubes, fluorescent light bulbs and other illuminating products. In addition, the company had tried hard, but with only limited success, to establish itself as a major television set manufacturer.

Prior to the merger the company investigated its industry carefully and arrived at some interesting conclusions: 1) That television set sales could not possibly grow at their average pace of the last ten years; 2) that to substantially increase Sylvania's share of the existing set market would require an exceptionally expensive and risky campaign; 3) That the slower projected rate of growth for the industry would retard the growth of tube sales; and

Leading Companies In Radio and Television

	—Earnings Per Share—			—Dividends Per Share—					
	1956	1957	1958	1956	1957	Current Annual Div. *	Recent Price	Div. Yield	Price Range 1958-59
Admiral Corp.	$ .64	$ .41	$ .80[4]	$1.00	$ —	$ —	21	—	21¾- 7
American Broad. Paramount Theat.	1.78	1.10	1.25[4]	1.30	1.00	1.00	23	4.3%	24⅛-13
Columbia Broadcasting System	2.13	2.82	3.10[4]	.90[2]	1.00[2]	1.20	39	3.0	41⅞-24⅛
Consolidated Electronic Industries	3.12	2.50	1.84	—	—	—	38	—	44¾-19½
Cornell-Dubilier	2.01	1.38	.28	1.40	.80	.80	23	3.4	26¾-12¾
DuMont (Allen B.) Laboratories	d1.70	d .28	—	—	—	—	7½	—	8¼- 3
Emerson Radio & Phonograph	.04	.07	.70	.30[2]	—	3% [3]	17	—	18¼- 4⅛
General Telephone & Electronics Corp.	(Merger 3/5/59 of General Telephone & Sylvania Elec. Products)						69	—	73¾-40⅜
General Telephone Corp.	3.05	3.05	3.28[4]	1.65	1.85	2.00	—	—	— —
Sylvania Electric Products Inc.	4.11	3.48	2.23	2.00	2.00	2.00	—	—	— —
Hazeltine Corp.	2.80	2.77	2.85[4]	1.40[2]	1.40[2]	1.40[2]	64	2.1	64¾-30½
Hoffman Electronics Corp.	2.19	2.25	2.30[4]	1.00	1.00	1.00	50	2.1	52¾-21
Magnavox Co.	3.54[1]	3.90[1]	2.50[1]	1.50	1.50[2]	1.50[2]	57	2.6	60½-30¼
Motorola Inc.	4.12	4.04	1.85	1.50	1.50	1.50	72	2.0	76¾-35
Philco Corp.	.05	.93	.61	.80[2]	4% [3]	—	29	—	30½-12⅜
Radio Corp. of America	2.63	2.52	1.98	1.50	1.50	1.50	53	2.8	53⅝-30¼
Tung-Sol Electric	3.84	3.31	2.67	1.25[2]	1.40[2]	1.40	50	2.8	54¼-23¼
Zenith Radio	6.27	8.29	12.30	2.50	2.50	6.00[4]	233	2.5	238¾-67½

d—Deficit.
*—Based on latest div. rate.
1—Year ended June 30.
2—Plus stock.
3—Paid in stock.
4—Estimated.
5—3 for 1 stock split subject to stockholders approved 4/28/59.

4) that the growth of its other important lines was also limited. For example, fluorescent lighting has grown at a rapid pace. Nevertheless competitive factors have so improved the product that a bulb which 10 years ago could be expected to last for 1500 hours can now be expected to last 7500 to 10,000 hours. The effect on bulb sales is fairly obvious.

On the other hand, Sylvania was finding that defense business is highly profitable. True, profit margins are low per unit of sales, but the rate of return on invested capital is high. It is not uncommon, in fact, for electronics companies to turn over their capital five or six times a year on defense business compared with only one-and-a-half or two times on commercial business.

Thus Sylvania arrived at the obvious conclusion that increased defense business was the best avenue for future growth. However, prudence dictated that not more than thirty percent of their business be from the military—a factor which tended to limit the company's defense business potential. General Telephone, however, had almost no defense business, an enormous amount of capital, and a strong desire to increase its non-utility earnings. The merger of the two companies into **General Telephone & Electronics,** therefore created a new and powerful entity in the electronics field with several attractive aspects.

Utility earnings will now account for about 40 percent of profits, providing excellent earnings stability. The other 60 percent, however, is free to grow in such diverse fields as television, defense, computers, etc. without the restrictions imposed by local utility commissions.

Sylvania's experience typifies most of the smaller members of the industry and explains the drive for defense business. Only one or two, however, have managed to maintain individual success stories.

RCA on Top

Towering over the rest of the radio and television industry is giant **Radio Corp. of America.** The company is by far the largest manufacturer of receiving sets and components, as well as one of the two major factors in the field of commercial broadcasting. Commercial sales, including revenues from the NBC radio and television networks account for 75 percent of revenues, and defense business for most of the balance.

RCA's earnings have been retarded in recent years by the exceptionally heavy expenses of color television, which so far has not become a commercial success. The fact remains, however, that it probably will be a success within the next few years, and when it blossoms, RCA will be the only company fully prepared to meet the demand. While waiting, however, the company has other important irons in the fire.

Along with I. T. & T., the company was chosen as leader of the Air Force's Project 480L to establish a world-wide missile defense communications system. Ultimately, billions of dollars will pour into this project.

In addition, RCA is an important contributor to the missiles race, and can cite with pride the special ceramic tube it devised that kept our Pioneer moonprobe rocket audible for a distance of 450,000 miles.

Of greater importance, however, is the development recently announced of a new type of vacuum tube that may well displace transistors in many important uses. The *nuvistron,* is a tiny thing, but it could mean gigantic profits for RCA.

1958 was a mediocre year at RCA. Sales held steady, but earnings receded to $1.98 per share from $2.52 a year earlier. In the year ahead, however, there should be a rebound to about $3.00 per share. Television set sales are expected to recover; advertisers, scared away last year by the recession, are now flocking back to sponsor new television shows; revenues should begin to pour in from the 480L project (also known as BMEWS—ballistic missiles early warning system); and color developments should slow down *(Please turn to page 44)*

Electronics...
BUSINESS MACHINES

By W. A. Hodges

► **Companies blazing the electronic trail — and those that have not kept up with the procession**

► **Industry in its infancy**

IN 1958, a year of recession, sales of electronic office equipment and computers climbed to over $800 million, a sizeable jump from the $500 million record scored in 1957. The sales performance is all the more remarkable when it is considered that less than 10 years ago there were virtually *no* sales of this type of equipment except for some minor military uses.

But if the past has been one of exceptionally rapid growth, it is fast becoming evident that the industry has just begun to scatch the surface of the enormous potentials of "office automation." It has been authoritatively estimated, for example, that there exists at this moment a demand for $500 million worth of electronics equipment from the nation's banks alone—and the potential demand in other industries is probably twice as great. Furthermore, the military demand for computers within missiles, computers to track missiles, computers to aid in destroying missiles, and computers for figuring out the intricacies of the design of missiles appears limitless. It is also interesting to note that in several of our major defense programs, computers are being used to decide which "other" computers can best perform particular defense functions.

Like other segments of the electronics industry, however, rapidly growing sales and a seemingly insatiable demand have not proved to be sure roads to immediate profitability. In 1958, as a matter of fact, the majority of companies in the industry reported lower earnings despite higher sales. There were exceptions of course, such as I.B.M. and Pit-

Leading Companies Manufacturing Business Machines

	—Earnings Per Share—			—Dividends Per Share—					
	1956	1957	1958	1956	1957	Current Annual Div. *	Recent Price	Div. Yield	Price Range 1958-59
Addressograph-Multigraph	$2.78[1]	$2.80[1]	3.25[1]	$1.33[4]	$1.33[4]	$1.50[4]	114	1.3%	125 -82
Burroughs Corp.	2.35	1.67	1.02	1.00	1.00	1.00	41	2.4	43¾-27⅝
Electronics Corp. of Amer.	[d] .71	.22	.15[6]	—	—	—	14	—	16¼- 6⅝
International Business Machines	6.55	7.73	10.65	2.30[4]	2.60[4]	2.60[4]	523	.4	552 -300
National Cash Register	2.62	2.57	2.19	1.10[4]	1.20	120	74	1.6	86¼-50½
Pitney-Bowes	3.14	3.07	3.20	1.60[4]	1.60[4]	1.60[5]	98	1.6	105 -52½
Royal McBee	3.47[1]	2.68[1]	.03[1]	1.40	1.40	.60	22	2.7	25¼-16
Smith-Corona Marchant Inc.	2.32[2]	2.16[2]	1.38[2]	.80[4]	1.00	1.00	18	5.5	23½-15⅝
Sperry Rand	1.74	.96	.95[3]	.80	.80	.80	24	3.3	25⅝-17¼
Telautograph Corp.	[d] .41	.34	.37[6]	.57[4]	—	—	12	—	11½- 3¾
Underwood Corp.	[d]10.91	[d]2.13		.40	.40	—	27	—	27¼-12⅞

[d]—Deficit.
*—Based on latest div. rate.
[1]—Year ended July 31.
[2]—Year ended June 30.
[3]—Estimated; year ending 3/31/59.
[4]—Plus stock.
[5]—Stockholders vote 4/15/59 on 3 for 1 stock-split; Div. on new shares set at $0.15 quarterly.
[6]—Estimated.

ney-Bowes, both of whom derive a large part of their revenues from rentals, but in general the year was a poor one in the earnings column.

The reasons, however, are not too difficult to discern. First, most of the companies are engaged in exceptionally costly research programs to keep abreast of the rapid change in the technology of the industry. Research is expensive — and many companies found, last year, that the cost was severe enough to warrant additional debt financing to replenish badly dented working capital positions. In the process, interest charges were increased and equity earnings were reduced.

Secondly, almost all of the companies produced new products from their research efforts. This resulted in tooling and training expenses for manufacturing and selling the new equipment.

And finally, wage costs continued to increase as a result of accelerator clauses in labor contracts — and materials costs remained fairly high despite the pressures of the recession.

In many instances new products have met with enthusiastic responses from potential customers, but the fact remains that large costs must be incurred before orders can be translated into actual billings and profits.

The figures in the accompanying table testify to the troubles the office equipment makers have had in maintaining their profit margins. Since each producer has special problems, however — and special potential, it will be fruitful to discuss most of them individually.

Some Strong Showings

Although most companies in the field failed to match their previous year's performance, there were a few standouts. Once again, **Addressograph-Multigraph** demonstrated that it has the formula for maintaining profitable operations while developing new and lucrative products.

Part of the secret stems from the fact that over 40 percent of revenues are derived from the sale of standard office supplies and special materials used in conjunction with its machines. Another important factor has been the company's uncanny ability to turn out new machines each year that meet with immediate acceptance in clerk-starved industries.

Sales scored a new record of $118 million in fiscal 1958 and earnings climbed to an all-time high of $3.25 on the recently split shares, and should go on to further heights in 1959.

Electronics still plays a small part in the companies affairs but it is destined to loom larger in the near future. Since 1956, Addressograph, in partnership with Eastman Kodak, has been developing an electronic data processing system that should be ready for wide market distribution shortly. In view of the company's marketing success in the past, it seems a good bet that its electronics business will get off to a flying start.

In recognition of its excellent record, the stock has enjoyed a high premium for almost two years now. As a result it appears out of range for current purchase, but may be retained by those already holding it.

Rental Revenues Resist Recession

It is significant that aside from Addressograph the companies with substantial rental revenues far outperformed the rest of the industry.

International Business Machines, for example derives about 60 percent of its income from the rental of business machines of all sizes, shapes and forms. Understandably, this high percentage tends to stabilize earnings in good years and bad. Thus with a heavy backlog of orders through most of the year, the company was able to soar on to record sales of $1,172 million and peak earnings of $10.65 per share.

Despite its excellent record to date, however, there are some clouds on IBM's horizon. While most of the industry continued to build up its new order position during 1958, IBM's slipped 50 percent from the level of 1957. Apparently, therefore, the rest of the industry is finally beginning to make its competition felt.

There can be no doubt that the company had the field to itself for almost a decade. At many times it has been questioned whether IBM could maintain its position intact under *(Please turn to page 53)*

Can VARIETY CHAINS Regain Former Share of Consumer Spending?

By Kenneth Hollister

SALES of Variety Chain Stores in 1958 increased about 3.4% compared with a total of about 5% for the entire retail industry. These chains reported only a 1.7% rise in 1957. Despite the improved sales in the period of recession, per share earnings were generally lower. In some cases the earnings suffered a decline of as much as 50%. For the first time in a period of reduced economic activity, variety chains did not display the defensive earning characteristics for which they had been noted in the past.

If the cause of this situation may be summed up, it can be called loss of trade position. Thus, while the variety chains now are making strides in improving their merchandising and operating techniques, the delay in starting these programs, when compared with other segments of the retail industry, is now affecting earnings adversely. While the recognition of some of the industry problems may have been slow, a concerted effort is now being made on the part of practically all of the variety chains to again operate efficient units having reasonable profit margins.

Evidence that these efforts are bearing fruit is shown in the sales figures just released for the first two months of 1959, which record an increase of 9.6% over the same months of 1958, although this gain is partly attributable to better general business.

On a broad basis, the improvement programs instituted by the variety chain managements beginning early in the 1950's were directed toward more efficient operation of existing facilities, a gradual change in the type of merchandise carried, and a beginning of major expansion and consolidation policies. Some of these projects are still in their infancy, but it is safe to assume that as the pattern of merchandising changes the 5-10¢ store of yesteryear will no longer be recognizable.

Leading Variety Store Chains

	Earnings Per Share 1956	Earnings Per Share 1957	Earnings Per Share 1958	Dividends Per Share 1956	Dividends Per Share 1957	Current Annual Div. *	Recent Price	Div. Yield	1958-59 Price Range
Butler Bros	$2.47	$2.74	$2.85[2]	$1.70[1]	$1.60	$1.80	38	4.7%	40½-22¼
Grant, W. T.	3.37	3.66	3.35[2]	2.00	2.00	2.20	46	4.7	47¼-27⅛
Green H. L.	2.63	2.66	2.30[2]	2.25	2.25	2.00 30	41	4.8	47½-22¼
Kresge, S. S.	2.60	2.42	2.50	1.60	1.60	1.60	33	4.8	34⅛-22½
Kress, S. H.	3.48	3.10	2.50[2]	2.50	2.00	2.00	42	4.7	43¼-24¼
McCrory-McLellan Stores Corp.	(Merger, 1/30/59 of McCrory and McLellan Stores).					.80	18	4.4	19¾-10⅞
McCrory Stores Corp.	1.40	1.36	—	1.00	1.00	—	—	—	— —
McLellan Stores Co.	1.72	1.56	—	1.60[1]	1.50	—	—	—	— —
Murphy (G. C.) Co.	4.10	4.11	3.50	2.12½	2.12½	2.12½	46	4.6	47¾-30¾
Neisner Bros.	1.50	.79	.43	1.00	1.00	.80	14	5.7	15 -10⅛
Newberry (J. J.) Co.	3.18	2.75	3.06	2.00	2.00	2.00	42	4.7	43⅜-26¼
Woolworth (F. W.) Co.	3.57	3.44	3.34	2.50	2.50	2.50	56	4.4	59¼-36⅜

*—Based on latest div. rates.

[1]—Plus stock
[2]—Estimated.

Chains Strive to Regain Competitive Status

Basically the problem of the retailer is to obtain a relatively larger proportion of consumer disposable net income. Over a long period of years there has been a close correlation between disposable income and retail sales, and there does not appear to be any reason to anticipate a change in that pattern. The various segments of the retailing industry must, therefore, compete with each other for a specific segment of consumer spending.

During the past 10 years the variety chain stores lost sales to supermarkets, drug stores, and to some extent to suburban department stores. Variety stores, however, carry certain items of merchandise which cannot be profitably carried by the other types of units. It remains for the variety store managements to either use these products as the basic drawing items and have other higher mark-up merchandise available, or convert to a store that obtains the major portion of its income from higher priced lines—while carrying the 3000-5000 other items of variety store inventory as a service at minimum profit levels.

In one way or another practically all of the chain store managements are experimenting with these programs, and within the next 3-5 years it is likely that the group may regain much if not all of its lost trade position.

As an example of the weakened economic position, it may be noted that pre-tax net profit for the group—(13 chains)—was only 7.3% in 1957 compared with 9.4% in 1949 and the peak of 13% in 1945. In the period from 1929-57 total retail sales rose 314% to $200.0 billion, while variety stores increased 290% to $3.5 billion. Variety chain store sales as a percentage of total retail sales have ranged from 1.67% in 1929 to 1.83% in 1953 and then declined again to 1.76% in 1957.

Self-Service — and Trek to Suburbia

Most of the retail outlets in this group were located in downtown shopping areas in the early 1950's when the retailing revolution began, and many of them were restricted by long term leases. The first remedy to suggest itself therefore was a move to self-service type operation. At minimum cost it was possible to reduce wage costs and substantially increase selling space. As may be seen from the table below the average sales per store in the self-service era rose quite rapidly in relation to conventional units.

*National Variety Chains**

	1954	1955	1956	1957
Number of stores †				
Total	100	101.5	102.5	103.7
Self Service	100	174.6	262.9	370.1
Conventional	100	93.1	84.2	73.2
Average Sales per Store †				
Self Service	100	144.6	166.5	188.3
Conventional	100	105.1	113.0	116.8
Self Service Stores as a % of Total	9.3	16.0	24.1	33.5

* Sales of $50 million or more. † 1954 = 100

The second phase of development was the movement into suburban shopping areas, of new and growing towns. The latter became particularly important as industrial plants were constructed in sections that formerly were predominantly rural. Here, as the population grew, the per capita income rose. Practically all of the variety chain stores now have field personnel whose sole job is to find locations for new and profitable stores.

Centralized Warehousing

Another program that will undoubtedly be important to the variety stores over the long run is the construction of centralized warehouses. The primary purpose of the warehouses is to provide more room in the store for the display of merchandise, which helps to speed turnover.

Rising Rents and Wages

Other costs affecting the profit margins of the variety chains are tenancy costs and wage expenses.

Over recent years tenancy costs have been rising slightly as most new leases are based on a fixed minimum plus a percentage of sales. A few chains still have older fixed price leases and generally these are substantially lower in cost than new construction. As expansion continues, however, the chains will either have to pay substantially more rental at existing locations or consider closing or moving the stores.

Wages in the field have risen quite substantially, primarily as a result of the changes in the minimum wage law, which caused a hike in basic wages from 25¢ an hour in 1938 to $1.00 an hour in March 1956. While there is some variation in the local conditions statutory wage minimums have imposed an important fixed cost on the variety chain type of operation. Should there be a further rise in the minimum wages as currently proposed, it would surely cut into profit margins.

Capital Expenditures

According to Chain Store Age, variety chains in 1957 spent $85,000,000, while landlords spent another $77,000,000. For 1958 the aggregate of the two was estimated somewhat higher at $195 million.

The improvement programs of the variety chains are now at a stage where they should be reflected in better profits. The hope has been reflected in the market action for the group, which strengthened recently on expectation of higher earnings over the coming years. The varying position and outlook for the individual companies follows:

Butler Bros.: This rather unique operation in the variety store group is a combination wholesaler and retailer, through a number of franchise stores. Its growth, which has been quite impressive in the industry, has resulted from acquisitions, including the T. G. & Y. variety chain stores in late 1958 and two smaller chains earlier in the year. At the end of 1958 the company had 2,669 units, including 2,432 Ben Franklin Stores operating in almost every state in the Union; 77 Scott Stores, mostly in the Midwest; 150 T. G. & Y. stores operating mostly in the Southwest; and 7 department stores on the west coast. A controlling interest was acquired in early 1957 by Rapid American Corporation which held over 405,000 shares, or approximately 35% of the total at the end of 1958. During the year the system opened, or enlarged, 249 stores and closed 112. The operation also has leaned towards the increasing use of credit sales which has contributed to improved earnings.

The earnings record of Butler Bros. is not wholly indicative of its sales record, as there are non-recurring capital gains reflecting liquidation of various facilities and property sales. For 1958 earnings were $2.95 compared with $2.74 a year earlier. Another 7% increase in per share earnings is not an unreasonable expectation over the coming year, although further acquisitions could materially change the estimate. The company has outstanding debt of $6.5 million and minority interest of approximately $1.7 million. At recent price the stock is selling at an average 13 times earnings and $1.80 dividend yields 4.7%.

W. T. Grant: Is the second largest variety chain having slightly over 700 stores in 40 states, and also controls an additional 63 stores in Canada that operate under the name of Zellers Ltd. The largest concentration of Grant stores is in New York, Pennsylvania, Ohio, and Michigan, but they are also important in the Midwest and Southwestern states. Generally, Grant has chosen the route of expansion into new areas in order to revitalize its earnings record, which has been unimpressive since 1949. Low price items continue to dominate in Grant stores. Credit sales have been adopted to a modest extent.

Earnings for 1958 are expected to be off from the $3.66 reported in 1957, but moderate recovery is anticipated this year. The $2.00 dividend reflects the company's long-term low pay-out policy, and it is expected that this payment will be continued. This issue is selling at 13½ times estimated earnings for 1958 and yields slightly over 4%.

H. L. Green & Co.: The future of the company probably is not tied to its past. In a consolidation last year, Green joined with the progressively managed Olen Company which had 133 stores in the southeast. At the same time, aggressive 34 year old Mr. M. E. Olen became president of Green. Since then there have been one major and other minor acquisitions by the chain. Based on the operating record of Olen, which was quite successful, the prospects for Green appear now to be looking up. An expansion program is being undertaken directed toward improving operating efficiency and expansion into new areas, as well as further acquisitions. Tentatively the company plans to open 30-50 stores per year in each of the next several years and to emphasize locations west of the Mississippi where Green now has only modest representation.

In February of this year, Green also acquired working control of the McCrory-McLellan Chain. It may be expected that in the not too distant future these two chains also will be merged into Green. On a pro-forma basis, the combined chains have estimated 1958 sales of $304 million and net income of approximately $7.5 million. This would indicate earnings for last year of $2.61 on 2,800,000 shares that would be outstanding if McCrory-McLellan holders were to receive Green stock at current market value.

Because of the rapidly changing characteristics of the Green chain, it is not comparable to others in the group on a price basis. In view of the well conceived plans of the new management, however, the issue seems one that should be able to report improved earnings over the coming several years, although sales have still lagged in recent months.

S. S. Kresge: Kresge's sales rose 2% last year. Earnings for 1958 were approximately $2.50 or slightly above the $2.42 reported in the previous year. At the end of 1958 this chain, which is the third largest in the country, had about 720 stores in the United States and Canada, after construction of about 30 stores.

Kresge's approach to the basic problems of the industry is to construct larger units ranging up to 40,000 to 50,000 sq. ft. and carrying inexpensive clothing items and small appliance lines. Self service operations are also being expanded materially.

For 1959 Kresge should be able to show a modest

Comprehensive Statistics Comparing the Position of Leading Variety Chain Stores

Figures are in million dollars, except where otherwise stated	S. S. Kresge Co.	G. C. Murphy Co.	Neisner Bros.	J. J. Newberry Co.	F. W. Woolworth Co.
CAPITALIZATION					
Long Term Debt (Stated Value)	$ 20.7	—	$ 3.9	$ 20.6	$ 129.1
Preferred Stock (Stated Value)	—	—	—	$ 10.0	—
Number of Common Shares Outstanding (000)	5,518	2,130	623	1,620	9,703
Capitalization	$ 75.9	$ 2.1	$ 4.5	$ 37.1	$ 226.6
Total Surplus	$ 144.4	$ 74.8	$ 17.5	$ 52.2	$ 260.1
Income Account: Fiscal Year Ended	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58
Net Sales	$ 384.3	$ 208.9	$ 67.0	$ 221.8	$ 864.5
Deprec. Depletion, Amort., etc.	$ 8.0	$ 3.5	$ .9	$ 2.9	$ 22.4
Income Taxes	$ 14.1	$ 8.0	$ .3	$ 5.5	$ 19.3
Interest Charges, etc.	$ .7	—	—	$ 1.0	$ 4.3
Balance for Common	$ 13.8	$ 7.4	$ .3	$ 4.8	$ 32.3
Operating Margin	7.6%	7.2%	—	4.8%	4.8%
Net Profit Margin	3.5%	3.5%	.4%	2.3%	3.7%
Percent Earned on Invested Capital	6.9%	9.6%	1.5%	7.6%	9.0%
Earned Per Common Share	$ 2.50	$ 3.50	.43	3.12	3.34
BALANCE SHEET: Fiscal Year Ended	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58
Cash and Marketable Securities	$ 43.0	$ 18.4	$ 2.4	$ 16.0	$ 71.4
Inventories, Net	$ 60.0	$ 32.9	$ 12.4	$ 46.5	$ 151.1
Receivables, Net	$ 1.0	—	$ .4	$ 2.9	$ 4.5
Current Assets	$ 104.1	$ 51.3	$ 15.2	$ 67.0	$ 231.4
Current Liabilities	$ 37.7	$ 14.2	$ 5.5	$ 22.7	$ 70.4
Working Capital	$ 66.4	$ 37.1	$ 9.7	$ 44.3	$ 161.0
Current Ratio (C.A. to C.L.)	$ 2.7	$ 3.6	$ 2.7	$ 2.9	$ 3.2
Fixed Assets, Net	$ 119.5	$ 37.8	$ 10.8	$ 45.0	$ 290.4
Total Assets	$ 262.5	$ 91.3	$ 26.9	$ 114.0	$ 561.8
Cash Assets Per Common Share	$ 7.80	$ 8.64	$ 3.86	$ 9.93	$ 7.36
Inventories as Percent of Sales	15.6%	15.7%	18.5%	20.9%	17.4%
Inventories as % of Current Assets	57.6%	64.2%	81.6%	69.4%	65.2%

improvement in per share earnings. There is also a possibility that the $1.60 dividend, which has been reduced a number of times since 1949 may be raised slightly. At the current price, therefore, the issue may be held for possible greater yield and modest appreciation prospects. It should also be noted that the Kresge foundation and other management interests hold approximately $2.3 million of the 5.5 million shares outstanding.

S. H. Kress The Kress organization is in the process of recovering from a management dispute late last year that was finally resolved by the resignation of the old management. Mr. George Cobb, formerly president of Zeller's Ltd., a Canadian affiliate of W. T. Grant, was elected president. Since joining the organization, Mr. Cobb has undertaken to revitalize the merchandising organization. The program is still in its early stages, but indications are that it will be successful. The new management also proposes to alter the product-mix so that over 40% of total sales will be derived from soft goods in lieu of the usual type of variety store merchandise. In addition, a chain of five warehouses is to be constructed over the coming year in order to provide more selling space in each of the stores. A program of new store construction contemplates the opening of 20-30 stores per year in new geographical areas in each of the next several years. The market price of Kress has risen quite sharply in the past year reflecting the management change and the possible improvement.

McCrory-McLellan: These chains with over 450 stores in the south and mid-west were recently acquired by H. L. Green. The earnings record of the chain has been quite poor and dividends were reduced several times in recent years. The combination operation of Green-McCrory-McLellan chain provides an excellent basis for increased efficiency and greater future sales potentials.

G. C. Murphy: The chain has outlets located in predominantly industrial coal and steel producing areas. G. C. Murphy suffered a decline in per share earnings for fiscal 1958 to $3.50 compared with $4.11 for the previous year. It is the fifth largest variety chain store in the U. S. and has about 325 stores in the 15 eastern and mid-western states. As employment in these areas increased, sales of the chain have improved moderately. For 1959 the company plans to materially expand its construction of new stores and will spend between $6-8 milion, a relatively large amount for this chain. The expansion is being directed towards *(Please turn to page 52)*

FOR PROFIT AND INCOME

Guesswork

Ruling out another 1929-1932 bust or disaster for this country in a war, you have a good chance of making money on a long-pull basis by holding good-grade stocks, adding to holdings via placement of savings on a dollar-averaging basis and correcting some inevitable mistakes from time to time by judicious switching operations. Experience teaches that the odds are against you if you try to play the market on a cyclical-swing basis; and that the risk is greatest in short-term speculative trading. Often the latter comes down to guesswork, with appraisal of earnings, dividends, prospects, etc., providing little or no effective guidance. For illustration, note the following variations in steel stocks since the end of 1958. Little changed or down over the period: Bethlehem, Inland, Republic, U.S. Steel, and Pittsburgh Steel. Up considerably: Armco, Jones & Laughlin, National, and Youngstown. Up widely: Carpenter Steel, Continental Steel and Lukens. The variations in most cases have little or nothing to do with basic values or long-range potentials.

Auto Stocks

Similarly, short-term cross-currents in automobile stocks defy "fundamental" analysis. General Motors is the best of these stocks, and the company figures to increase its dominant share of the market this year — but the stock is lower now than it was at the end of 1958. Ford is second best and will have a wide gain in 1959 earnings over the depressed 1958 results. Up to this writing the stock has had a 1959 rise of over 8%. Most speculative issue among the "Big Three", Chrysler, is up over 15% in this period. American Motors may well have a record year with profit of $7.00 or more a share. Following wide prior rise, it has fallen over 25% so far in 1959. Studebaker-Packard will have its best year in a long time, and might be in the black for a change. The stock is down nearly 23% since the start of 1959.

Another Look

It was around a year ago, in these pages, that we recommend-

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
Eastman Kodak	Quar. Dec. 31	$1.83	1.69
National Gypsum	Year Dec. 31	3.53	3.16
Anaconda Co.	Quar. Dec. 31	1.35	.87
Crucible Steel Co. of Amer.	Quar. Dec. 31	.80	.19
Texas Utilities Co.	Year Dec. 31	2.73	2.56
American Sugar Refining	Year Dec. 31	4.71	3.80
Penn-Dixie Cement	Quar. Dec. 31	.81	.62
Clark Equipment	Quar. Dec. 31	.88	.79
Polaroid Corp.	Year Dec. 31	1.94	1.44
Coty, Inc.	6 mos. Dec. 31	.40	.20

ed Denver & Rio Grande Western at 36. It is now at 59, still among the best rails and worth holding. The same goes for Southern Pacific, recommended at 39 and now 68. Burlington Industries was given our nod at 11½ and is over 40% higher now at 16½. It could go higher — but textiles are not the best stocks in which to try to stretch your luck. What would the writer do personally? Sell it. Also Whirlpool Corp. Of course, the outlook for this big appliance maker has improved considerably — but so has the stock: first recommended at 19 and now selling at 33.

Others

It was also about a year ago that we liked the looks of Parke, Davis at 22½ (adjusted for the subsequent stock split). Now around 40, it is amply priced in the vicinity of 30 times possible 1959 earnings. We doubt that holders would get hurt by profit taking. Pfizer, then 59 and now at 111, is equally high. It was in June, 1958, that we recommended United Artists Corp. at 22½. That one took patience — but earnings get attention sooner or later. The stock is around 29. It is still moderately priced on earnings and should work higher in discounting probable profit gains over the next year or two.

Switch

We cited good potential in Federated Department Stores, at 37, some nine months ago. The stock is now at 60. It is the best in the group, but priced accordingly. At 45, Gimbel Bros., which was recommended only a few weeks ago at 38, is priced around ten times indicated earning power. If you don't mind trading down in quality, consider a switch. Gimbel ought to outrun Federated over the medium term. Of course, there have been other recommendations in past issues and we'll get around to a fresh look at some of them two weeks hence. No room for more than a few here.

Too High Or Too Low

For some time it seemed apparent that either zooming tire stocks like Firestone and Goodyear were too high, or U. S. Rubber too low. So U. S. Rubber began to move recently — this being a market that leans to the "constructive" side. The management thinks 1959 earnings could well be $4.50 or more a share. If so, the stock at 57 is priced under 13 times earnings and about 28 times the dividend. Sure, Firestone offers more quality but at 148 is priced at something like 20 times earnings and 56 times its dividend. Comparable estimates for Goodyear are roughly 19 times earnings and 55 times the present dividend. If you assume tire stocks can go higher — which is the way they are pointed at this writing — we would bet a few chips on U. S. Rubber. The gap between it and the other two is still too wide.

Best Drugs

The best stocks and the best-acting stocks are often two different things. Bristol-Myers and Vick Chemical are not the best drug stocks. Both have ethical drug interests, but are mainly in the proprietary field. These are the best-acting drug stocks at this writing. At 85, about 17 times possible 1959 earnings, Bristol-Myers is far from cheap. It could go higher, but we would not reach for it. The same for Vick at 122 or something like 22 times earnings. Maybe a split ahead? We don't know. If so, the issue still looks plenty high.

Cross-Currents

With few exceptions, the patterns of selectivity in this market are not too consistent. They vary considerably from week to week, and even from day to day as some stocks run into profit taking and others come to the front. For what it might be worth, the following have been the principal stronger-than-average stock groups in recent trading sessions up to this writing: aluminum, auto parts, chemicals, drugs, baking, dairy products, metal fabricating, domestic oils, railroad equipment, sulphur, television-electronic, textiles and tires. On the whole, the "cats and dogs" have continued to widen their excessive lead over investment-grade stocks. Groups tending to lag at this time include air lines, automobiles, building materials, liquor, meat packers, machinery, international oils, paper, soft drinks and sugar.

Oils

News of the imposition of mandatory Government limits on imports of crude oil and oil products had been expected and substantially discounted for some time. However, the controls are a little tougher than had been thought likely. The market effects so far have been a good deal less than dynamic. Previously under pressure for some time, stocks of the international companies reacted moderately. Those of domestic companies rallied further, mostly within recent trading ranges. A few managed to attain 1958-1959 highs. We do not see anything to get excited about either way. The internationals face more uncertainties than the domestic concerns; but they still retain a decided advantage in foreign producing costs. And since the leaders also have large U. S. production, what they lose in import advantage will be partly balanced by whatever improvement might develop in the domestic oil situation. Potentials for the latter do not look great to us. There is over-supply of oil — foreign and domestic. Wages and other costs are rising. Ability to raise selling prices, and make the boosts stick, remains to be demonstrated. Finally, the threat of a cut in the U. S. depletion allowance for tax purposes still hangs over the industry. END

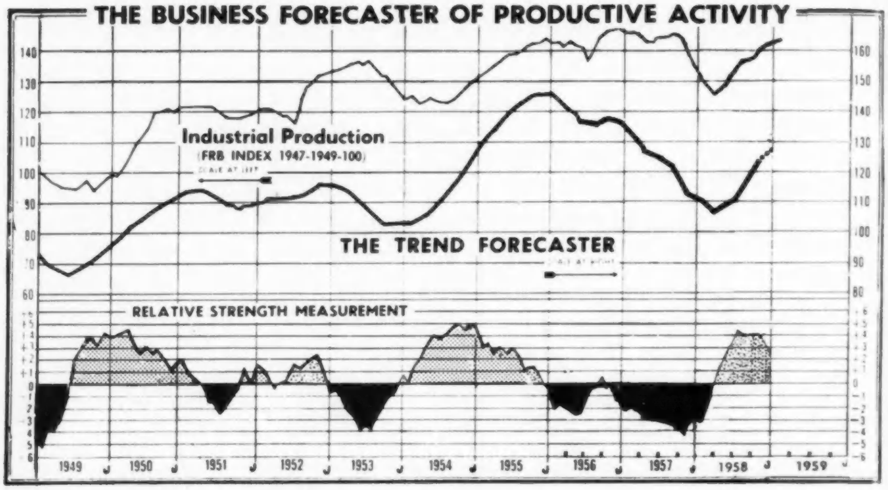
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
Mc Graw-Edison	Year Dec. 31	$1.84	$2.83
Borg-Warner	Year Dec. 31	2.34	3.81
Texas Gulf Sulphur	Year Dec. 31	1.34	1.75
Cincinnati Milling Machine	Year Dec. 31	1.62	4.46
General Motors Corp.	Year Dec. 31	2.22	2.99
Raybestos-Manhattan	Year Dec. 31	3.01	5.47
Tung-Sol Electric	Year Dec. 31	2.67	3.31
Cone Mills Corp.	Year Dec. 31	.81	1.24
Detroit Steel Corp.	Year Dec. 31	.31	.90
Walworth Co.	Year Dec. 31	.37	2.31

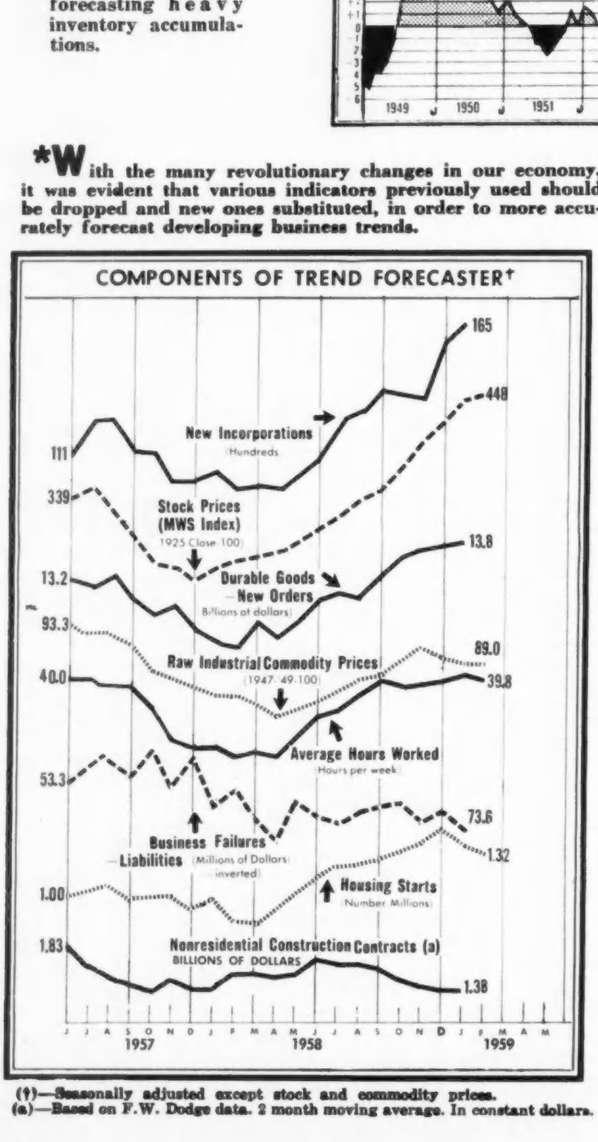
the Business A

Business Trend Forecaster*

INTERESTING TO NOTE — The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.



***With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.**



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Based on F.W. Dodge data. 2 month moving average. In constant dollars.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook—the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

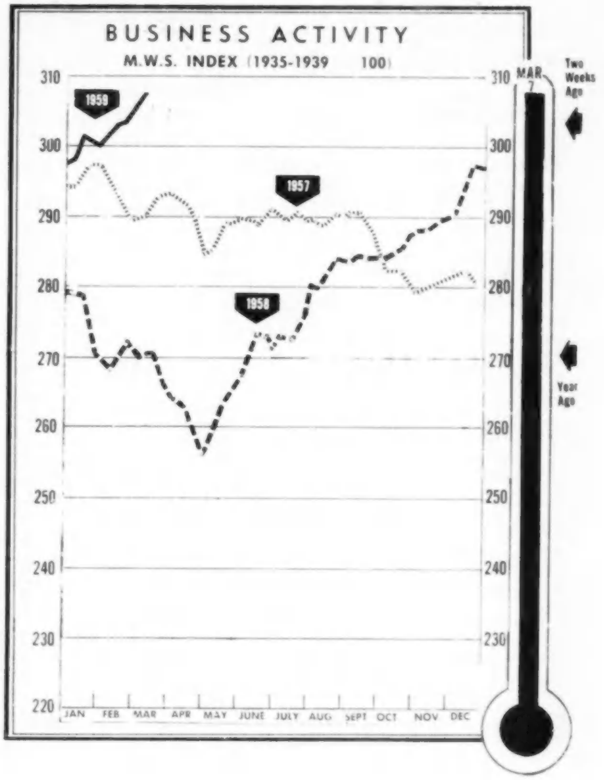
Current Indications of the Forecaster

With figures now available for early 1959, it seems apparent that the momentum of the business uptrend has begun to wane, if only slightly. Considerable strength remains, and there is also the probability that broad measures of activity will show gains for the next few quarters. Nevertheless, there has been a definite slowing of the pace of business improvement.

The rate of housing starts, which rose throughout the last three quarters of 1958, has evidently begun to decline in early 1959; seasonally adjusted, the rate fell in both January and February. Industrial commodity prices, which were climbing in the last three quarters of 1958, apparently leveled out in early 1959; average hours of work are no longer rising and the trend of business failures has turned less favorable.

Reflecting these trends in components the **Relative Strength Measure** began declining late in 1958, and has evidently continued to fall in early 1959. Final figures for January put it at +2.5, down from over +4 last October. At the current reduced, but still positive level, it is indicating a slowing of the pace of business advance in coming months.

Analyst



CONCLUSIONS IN BRIEF

PRODUCTION—inching up now, as automobile output has stopped rising sharply. Important increases now being scored in raw materials industries, reflecting increasing inventory accumulation of these materials. Further slight advances in total output probable through June.

TRADE—retail volume now stable, in both soft goods and hard goods lines. Automobile sales continue to run a little above 5.0 million (excluding imported cars). Apparel sales firm, appliance volume rising. Outlook: approximate stability into the summer.

MONEY & CREDIT—slight tightening of rates accompanying increase in discount rate, but still no major shift upward in demand for funds, relative to supply. Continue to look for slow, moderate uptrend in rates during 1959.

COMMODITIES—outside of recent strength in metals (at least some of which results from prospective labor difficulties) the commodity price level is still about stable. Small, irregular movements probable through second quarter.

As of the end of March it should be obvious that the student of business conditions for 1959 must now assume, as a working hypothesis, that there will be a steel strike at mid-year.

The grounds for such an expectation are now fairly well laid. The purchasing of steel for the rebuilding of inventories is now in an advanced stage, and stocks of finished steel in the hands of steel users are now rising at about one million tons a months. Well over 10% of current steel production is thus going into business inventories, as a hedge against a strike. By mid-1959, inventories held by users are likely to be close to 20 million tons — perhaps not an excessive figure, but one that provides an adequate cushion against all but the most severe interruption of steel deliveries. Consumers of steel thus will not be on the necks of the steel companies, urging them to settle quickly.

At the same time, the steel union itself is not likely to be in any great hurry to settle. The rapid rate at which inventories are being built up this spring suggests that if there is no strike the operating rate is likely to go back down again; if the rate is to go down anyway (and employment with it) Dave McDonald is likely to figure that he may as well use a strike-induced decline in output for his own purpose. Thus despite current rumors to the contrary, the 1959 outlook still seems to contain a mid-year strike.

Granting this probability, what does the second half of the year look like? Analysts have grown accustomed to the fact that a steel strike of modest dimensions (perhaps four weeks) is at least a mild

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND

	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Feb.	144	143	130
Durable Goods Mfr.	1947-'9-100	Feb.	155	153	137
Nondurable Goods Mfr.	1947-'9-100	Feb.	138	137	125
Mining	1947-'9-100	Feb.	124	123	118
RETAIL SALES*	$ Billions	Feb.	17.5	17.5	16.1
Durable Goods	$ Billions	Feb.	5.8	5.8	5.1
Nondurable Goods	$ Billions	Feb.	11.7	11.7	11.0
Dep't Store Sales	1947-'9-100	Feb.	138	138	124
MANUFACTURERS'					
New Orders—Total*	$ Billions	Jan.	28.4	28.4	24.4
Durable Goods	$ Billions	Jan.	13.8	13.7	10.7
Nondurable Goods	$ Billions	Jan.	14.6	14.7	13.7
Shipments*	$ Billions	Jan.	28.2	28.1	26.4
Durable Goods	$ Billions	Jan.	13.7	13.6	12.6
Nondurable Goods	$ Billions	Jan.	14.5	14.5	13.7
BUSINESS INVENTORIES, END MO.*	$ Billions	Jan.	85.5	85.2	90.0
Manufacturers'	$ Billions	Jan.	49.5	49.2	52.9
Wholesalers'	$ Billions	Jan.	11.9	12.0	12.6
Retailers'	$ Billions	Jan.	24.1	24.0	24.5
Dept. Store Stocks	1947-'9-100	Jan.	151	150	147
CONSTRUCTION TOTAL	$ Billions	Feb.	3.5	3.7	3.1
Private	$ Billions	Feb.	2.5	2.6	2.3
Residential	$ Billions	Feb.	1.4	1.5	1.1
All Other	$ Billions	Feb.	1.1	1.1	1.2
Housing Starts*—a	Thousands	Jan.	1350	1430	1020
Contract Awards, Residential—b	$ Millions	Jan.	1022	981	777
All Other—b	$ Millions	Jan.	1298	1301	1289
EMPLOYMENT					
Total Civilian	Millions	Feb.	62.7	62.7	62.0
Non-Farm	Millions	Feb.	50.2	50.3	49.8
Government	Millions	Feb.	8.1	8.1	7.8
Trade	Millions	Feb.	11.0	11.0	11.0
Factory	Millions	Feb.	11.9	11.8	11.8
Hours Worked	Hours	Feb.	39.8	39.9	38.4
Hourly Earnings	Dollars	Feb.	2.19	2.19	2.10
Weekly Earnings	Dollars	Feb.	87.16	87.38	80.64
PERSONAL INCOME*	$ Billions	Jan.	362	360	349
Wages & Salaries	$ Billions	Jan.	245	243	235
Proprietors' Incomes	$ Billions	Jan.	58	58	56
Interest & Dividends	$ Billions	Jan.	32	30	32
Transfer Payments	$ Billions	Jan.	26	26	24
Farm Income	$ Billions	Jan.	17	18	16
CONSUMER PRICES	1947-'9-100	Jan.	123.8	123.7	122.3
Food	1947-'9-100	Jan.	119.0	118.7	118.2
Clothing	1947-'9-100	Jan.	106.7	107.5	106.9
Housing	1947-'9-100	Jan.	128.2	128.2	127.1
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Feb.	110.6	110.1	105.5
Bank Debits*—g	$ Billions	Feb.	89.4	87.8	79.5
Business Loans Outstanding—c	$ Billions	Feb.	30.3	30.3	30.4
Instalment Credit Extended*	$ Billions	Jan.	3.8	3.7	3.5
Instalment Credit Repaid*	$ Billions	Jan.	3.4	3.4	3.4
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Jan.	4.5	6.2	4.8
Budget Expenditures	$ Billions	Jan.	6.8	7.1	6.0
Defense Expenditures	$ Billions	Jan.	3.7	4.2	3.6
Surplus (Def) cum from 7/1	$ Billions	Jan.	(13.3)	(11.0)	(8.0)

PRESENT POSITION AND OUTLOOK

stimulant; it is likely to be so again in 1959. If enough inventory is lost during the strike, there will be the familiar post-strike recovery in steel, and in related lines that may have lost production in the interim.

However, it is probably worth adding that any post-strike stimulus in 1959 is likely to be mild by comparison with earlier postwar strike experience; this is later in the game. It will take a higher price (in the form of a more inflationary steel settlement) to obtain a shorter post-strike spurt in 1959 than it did in 1956.

* * *

PER CAPITA INCOME — very slowly, this key measure of buying power has turned around and headed uphill again. But it has had rough going for several years now, and at present it is no higher than it was four year ago.

In 1958, per capita personal income was about $1790, or about ½% more than in 1957. But in real terms — after adjustment for the higher level of prices prevailing in 1958 — per capita income was actually about 2% below 1957, and no higher than in 1955. While incomes have risen, of course, population and prices have also risen; and for four years real buying power per person has been about unchanged.

* * *

INVENTORY DEMAND—it has turned around with considerable speed. In the first quarter of 1959, it now seems that business stocks have been rising at an annual rate of about $4 billion — about as fast as any time since 1955. After the pronounced liquidation of 1958, this increase in inventories is providing a broad stimulus to business, particularly in steel.

Inventory-sales ratios in manufacturing industries are still pretty low however, even after the accumulation in the first quarter. They are low enough, in fact, to suggest that business will be rebuilding its inventory throughout the next two quarters and perhaps throughout 1959.

* * *

THE EMPLOYMENT OUTLOOK — this continues to be one of the dominant statistical issues of 1959. By all indications, the unemployment level has clung at about 6% of the workforce throughout the winter, and there are those who would argue it is not likely to sink below that level (seasonally adjusted) in the next two

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1958 IV Quarter	1958 III Quarter	1958 II Quarter	1957 IV Quarter
GROSS NATIONAL PRODUCT	453.0	439.0	429.0	438.9
Personal Consumption	296.5	291.5	288.3	287.2
Private Domestic Invest.	61.5	53.7	49.2	61.5
Net Foreign Investment	0.2	1.7	1.7	3.3
Government Purchases	94.8	92.0	89.7	86.9
Federal	53.8	52.2	50.7	49.1
State & Local	41.0	39.8	39.0	37.8
PERSONAL INCOME	359.1	357.5	349.8	349.7
Tax & Nontax Payments	43.7	43.5	42.3	43.0
Disposable Income	315.4	314.0	307.5	306.8
Consumption Expenditures	296.5	291.5	288.3	287.2
Personal Saving—d	19.0	22.5	19.2	19.6
CORPORATE PRE-TAX PROFITS	44.0	37.9	32.0	39.9
Corporate Taxes	22.4	19.3	16.3	19.9
Corporate Net Profit	21.6	18.6	15.7	20.0
Dividend Payments	11.8	12.5	12.4	12.0
Retained Earnings	9.8	6.1	3.3	8.0
PLANT & EQUIPMENT OUTLAYS	29.9	29.6	32.4	37.8

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Mar. 7	307.4	304.8	269.9
MWS Index—per capita*	1935-'9-100	Mar. 7	228.7	226.8	202.9
Steel Production	% of Capacity	Mar. 14	91.8	90.3	54.2
Auto and Truck Production	Thousands	Mar. 14	166	166	112
Paperboard Production	Thousand Tons	Mar. 7	316	302	266
Paperboard New Orders	Thousand Tons	Mar. 7	370	324	321
Electric Power Output*	1947-'49-100	Mar. 7	250.4	251.9	227.6
Freight Carloadings	Thousand Cars	Mar. 7	596	576	544
Engineering Constr. Awards	$ Millions	Mar. 9	372	523	313
Department Store Sales	1947-'9-100	Mar. 7	118	118	112
Demand Deposits—c	$ Billions	Mar. 4	56.2	57.1	54.5
Business Failures	Number	Mar. 5	288	296	358

PRESENT POSITION AND OUTLOOK

quarters. While this is far from drastic unemployment by long-term U. S. standards, it is distinctly higher than our experience of the postwar years has prepared us for. It is therefore an important political and economic issue. As an issue, it involves such acute problems as wage rates, productivity gains, taxes, depreciation allowances, extended aid programs to the unemployed, redirection of government contracts into areas of unemployment, etc. Expect considerable legislative consideration of the unemployment figures this spring.

* * *

ON THE FARM—despite massive price support operations in the year just passed, the so-called farm parity ratio, which is supposed to express the farmer's welfare in a general way, is still close to its lowest point since World War II. While prices of farm products have been supported, the prices of things farmers have to buy have risen just as sharply. At the moment, farmers' costs of living and producing farm products are about 3% above a year ago, while prices are about 1% higher. Farm net income is accordingly in a decline. The drop began in late 1958, and is now expected to accelerate in early 1959.

***Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.**

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1958-'59 Range High	1958-'59 Range Low	1959 Mar. 6	1959 Mar. 13
300 Combined Average	466.5	453.6	456.7	466.5H
4 Agricultural Implements	408.6	196.5	401.6	405.1
3 Air Cond. ('53 Cl.—100)	131.1	87.8	126.3	129.9
10 Aircraft ('27 Cl.—100)	1301.5	982.2	1264.6	1301.5H
7 Airlines ('27 Cl.—100)	1309.5	638.8	1229.5	1309.5H
4 Aluminum ('53 Cl.—100)	443.7	253.4	409.3	422.2
5 Amusements	214.0	125.0	214.0	214.0
6 Automobile Accessories	449.6	298.9	427.5	449.6H
6 Automobiles	100.4	40.8	94.6	95.6
4 Baking ('26 Cl.—100)	41.3	28.5	39.8	41.3H
4 Business Machines	1317.2	898.2	1317.2	1304.2
6 Chemicals	760.8	509.5	747.2	760.8H
4 Coal Mining	30.3	18.4	28.6	29.2
4 Communications	197.2	85.7	184.2	197.2H
9 Construction	171.2	107.5	168.0	171.2H
7 Containers	1142.6	707.3	1109.7	1120.7
6 Copper Mining	344.6	184.6	341.8	344.6H
2 Dairy Products	150.3	115.6	147.4	150.3H
6 Department Stores	132.0	78.9	127.3	132.0H
5 Drugs-Eth. ('53 Cl.—100)	425.2	217.2	415.5	415.5
6 Elec. Eqp. ('53 Cl.—100)	287.4	195.8	284.7	287.4H
3 Finance Companies	747.2	568.8	676.1	683.3
5 Food Brands	438.1	255.5	438.1	438.1
3 Food Stores	279.6	182.2	279.6	279.6

(Nov. 14, 1936 Cl.—100)	High	Low	Mar. 6	Mar. 13
100 High Priced Stocks	286.3	189.7	281.0	286.3H
100 Low Priced Stocks	636.5	618.2	618.3	636.5H
5 Gold Mining	962.8	530.5	853.0	886.8
4 Investment Trusts	190.6	144.4	188.8R	188.8
3 Liquor ('27 Cl.—100)	1564.6	913.4	1549.5	1564.6
8 Machinery	501.2	343.8	479.0	501.2H
3 Mail Order	314.0	143.3	299.4	314.0H
4 Meat Packing	249.6	123.6	241.7	241.7
5 Metal Fabr. ('53 Cl.—100)	207.7	138.1	202.4	207.7H
9 Metals, Miscellaneous	409.6	278.3	398.6	402.3
4 Paper	1275.4	841.8	1275.4	1240.3
22 Petroleum	885.5	629.7	827.0	843.8
21 Public Utilities	362.0	258.9	355.2	362.0H
6 Railroad Equipment	97.2	59.2	90.3	97.2H
20 Railroads	76.7	43.0	73.1	74.6
3 Soft Drinks	640.1	445.6	634.4	628.6
12 Steel & Iron	419.2	249.3	411.6	419.2H
4 Sugar	144.7	102.8	130.4	125.2
2 Sulphur	863.3	543.4	786.9	863.3H
11 TV & Electron. ('27 Cl.—100)	84.3	28.8	76.7	84.3H
5 Textiles	203.1	106.9	201.3	203.1H
3 Tires & Rubber	243.7	142.3	237.3	243.7H
5 Tobacco	188.1	110.9	186.5	183.1
3 Variety Stores	350.9	239.3	344.4	344.4
20 Unclassif'd ('49 Cl.—100)	270.6	145.4	265.9	270.6H

H—New High for 1958-1959. R—Revised.

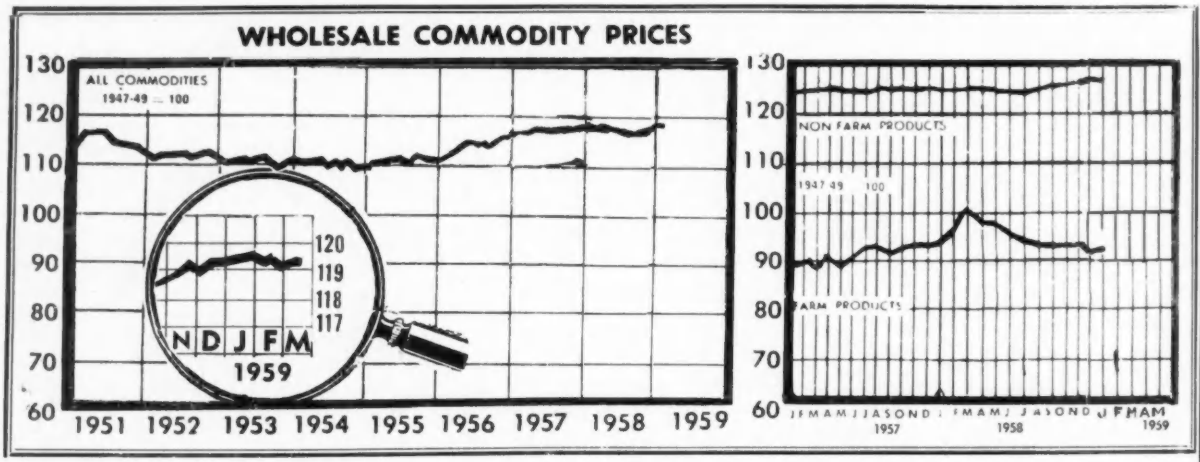
Trend of Commodities

SPOT MARKETS—Leading commodities were in demand in the two weeks ending March 13 and the BLS daily index of 22 commodities rose 1.5% to close at 85.8. Both foods and raw industrial materials were higher, the latter rising 2.1% on strength in copper scrap, lead scrap, rubber and tallow. Signs have been increasing that inventory accumulation is now under way and this receives further confirmation from the strength in leading raw industrial materials.

Among the rank and file of commodities, farm products strengthened somewhat in the latest two week period while other commodities marked time. The BLS comprehensive commodity index moved up 0.1% in the fortnight ending March 13, to close at 119.2. At this level it was still 0.4% under the all-time peak, a short-fall resulting from previous weakness in farm products and foods.

FUTURES MARKETS– Most futures worked higher in the two weeks ending March 13, with raw industrial materials in the lead. Hides, rubber, copper, zinc, lead, wool tops, soybeans, coffee and cocoa all were higher. Mixed markets prevailed for wheat, corn, oats, cottonseed oil and cotton.

Wheat futures were mixed in the period under review. Old crop options were in demand while new crop futures lagged. Increased demand for old crop wheat has been evident since the Department of Agriculture's report last month, indicating that entries into the loan have exceeded the 600 million bushel level. Sentiment was also bolstered by recent indications that this season's exports would exceed earlier estimates. With the May, 1959 option selling close to $2.04, it would have to rise at least 10¢ to induce growers to redeem wheat from the loan.



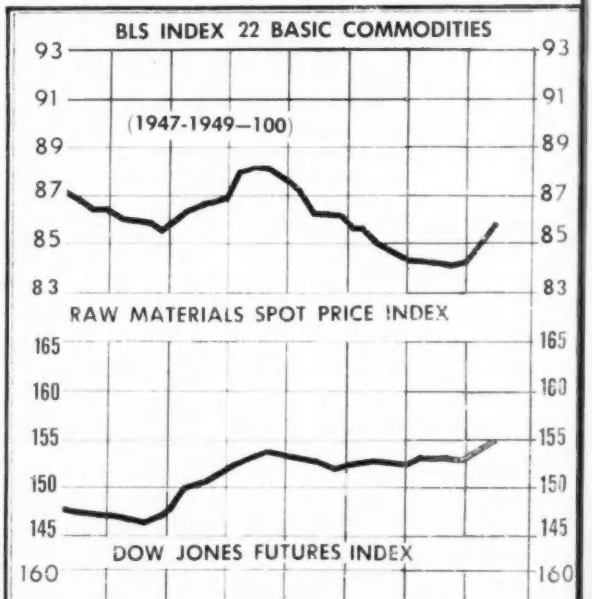
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Mar 10	119.2	119.1	119.7	60.2
Farm Products	Mar. 10	90.3	89.9	100.5	51.0
Non-Farm Products	Mar. 10	127.6	127.6	125.7	67.0
22 Sensitive Commodities	Mar. 13	85.8	84.5	85.7	53.0
9 Foods	Mar. 13	79.4	78.8	89.3	46.5
13 Raw Ind'l. Materials	Mar. 13	90.4	88.5	83.1	58.3
5 Metals	Mar. 13	98.5	95.7	85.4	54.6
4 Textiles	Mar. 13	76.4	76.6	76.9	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1958	1957	1953	1951	1945	1941
High of Year	154.9	166.3	162.2	215.4	89.9	85.7
Low of Year	146.5	149.5	147.9	176.4	96.7	74.3
Close of Year		150.0	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1958	1957	1953	1951	1945	1941
High of Year	159.0	163.4	166.8	215.4	106.4	84.6
Low of Year	144.2	153.8	153.8	174.8	93.9	55.5
Close of Year		156.5	166.5	189.4	105.9	84.1



THE OHIO OIL COMPANY

reports a year of new achievements in 1958*

- * Discovery of oil in Libya and Venezuela.
- * An increase in North American crude oil reserves, despite high production.
- * Record-high sales of refined products.
- * Progress in research and in other activities looking toward the future.

HIGHLIGHTS OF THE YEAR	1958	1957
FINANCIAL		
Net Sales and Other Income	$274,401,000	$291,982,000
Net Income	$32,156,000	$41,490,000
Net Income per Share	$2.45	$3.16
Dividends per Share	$1.60	$1.60
Book Value per Share	$27.97	$27.12
Capital Expenditures	$39,241,000	$64,799,000
Exploration Expense	$27,349,000	$25,149,000
Payrolls	$44,707,000	$44,256,000
OPERATING		
Net Crude Oil and Natural Gas Liquids Produced—Barrels per Day	100,681	106,625
Natural Gas Produced and Sold—Thousand Cubic Feet per Day	288,496	290,130
Crude Oil Transported—Million Barrel-Miles	18,825	24,469
Refined Products Transported—Million Barrel-Miles	1,360	1,396
Crude Oil Refined—Barrels per Day	41,425	41,521
Refined Products Sold—Barrels per Day	42,668	41,634

Full details in our
71st ANNUAL REPORT

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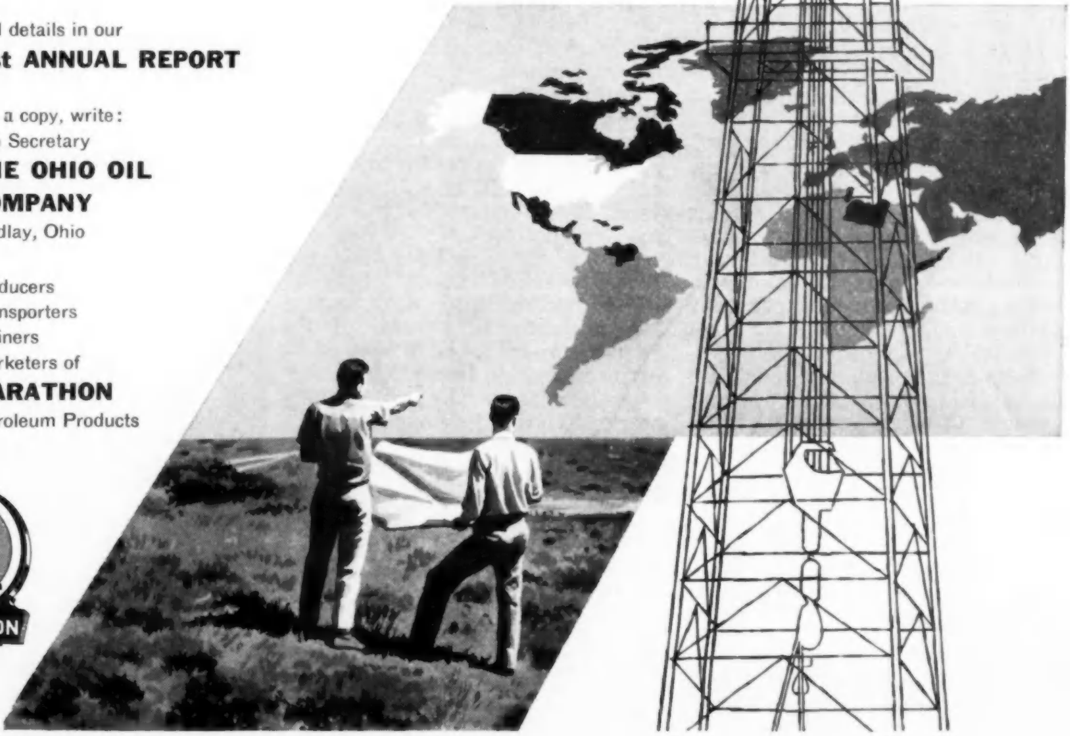

MARATHON

Electronics . . . Radio and TV

(Continued from page 29)

as a drain on profits.

High Flying Zenith

Zenith is one of the few major companies in the industries with two distinctions: 1) it has not gone overboard on defense; and 2) it has managed to sell more television sets profitably than any other company.

Quality has been the watchword at Zenith, combined with careful dealer selection. As a result the company has virtually monopolized the quality set market and has managed to escape the wide swings in fortunes that have plagued the rest of the industry. In previous issues of the magazine Zenith has been discussed at great length. We recommended it in our January 4, 1958 issue at 121. It split in the following February two for one. The price today on each share is $271. Its earnings of $12.30 per share in 1958 compared with $8.29 a year earlier should come as no surprise to our readers.

Snap-Back For Other Companies

In general, most of the set makers were on the upgrade as 1958 came to an end. With dealer inventories low and appliance sales picking up, there should be good follow through in the first half of the current year.

The result may well be the first encouraging earnings in a long time for **Philco** and **Admiral**. Philco closed the year on a strong note, with all divisions contributing to the betterment. Full year earnings were only 61¢ per share, but a continuation of the current pattern could bring earnings back to the $2.00 level.

Admiral presents almost an identical picture, and appears capable of earnings $2.00-$2.10 in the current year. Since both companies are now in excellent financial shape, a return to a dividend paying basis is now a possibility.

Magnavox felt the recession last year, as earnings dropped to $2.50 per share from $3.90 in the previous year. Nevertheless the company used the recession to discontinue unprofitable lines and to build up its strong points. As a result it is now enjoying booming demand for its new stereophonic phonograph lines and quality television sets.

Development costs for a new data processing system may hold back earnings growth this year, but a return to $3.50 in net appears likely.

The Broadcasters and Telecasters

Despite a sharp cutback in advertising billings during the depths of the recession, the major broadcasters came through 1958 in good shape.

Columbia Broadcasting operates the largest television and radio network in the country, and is also a major producer of phonographs, records, tubes and electronic equipment. Earnings for the year climbed to over $3.00 per share from $2.82 a year ago, continuing a pattern of higher earnings dating back to 1951.

In 1959 there should be a further increase as advertisers who retrenched during the recession flock back to the networks. For the longer term, however, the outlook is not as clear. The company admits that growth through broadcasting operations is limited, but so far has come to no decision concerning expansion of manufacturing facilities. Many avenues are being investigated and tried (backing Broadway shows, motion picture production, etc.) but as yet the future direction of Columbia remains to be determined.

On the other hand **American Broadcasting-Paramount** appears to know exactly where it is headed. Its sole aim appears to be to catch up to NBC and CBS and to rank on an equal footing as a national network.

So far ABC has been eminently successful in its quest. Its evening shows currently rank among the highest and several of its regular programs have been powerful enough to bring retaliatory measures from the major networks. (NBC has recently advanced the starting time of its Steve Allen show to compete directly with ABC's "Maverick". The same "Maverick" show has forced CBS to find a less competitive spot for Jack Benny, one of its top drawing cards.)

Unlike CBS and NBC, American Broadcasting still has a long way to go to reach its full potential. Consequently, shareholders may have a more exciting time than CBS holders. Earnings in 1959 sholud rise again, possibly reaching the $1.50-$1.75 level compared with an estimated $1.25 in 1958. Dividends will probably remain at $1.00 a share, although a small increase is possible if the new year lives up to most of its promise. END

— Africa —
The Economic Woes of the Newly Independent States

(Continued from page 23)

more diversified and the potential for economic growth is there. Right now, coffee, bananas, and palm kernels are Guinea's major exports, but the country's long-term growth is closely tied to the development of its rich mineral resources, including bauxite, iron ore and diamonds. Bauxite deposits alone are estimated at 300 million tons. Coupled with the vast hydroelectric power resources of the Konkoure River, they promise to make Guinea one of the world's major aluminum producers.

When, as a result of the referendum last fall, Guinea severed its ties with the French Republic, a $500 million investment program was well under way. Beside the $200 million scheduled and partly committed in French public and private funds, Canadian aluminum interests have invested some $115 million in the promising Boke area.

Another aluminum project was started in 1957 at Fria by the French Pechiney Group, in which Olin Mathieson Corporation reportedly holds the controlling interest. The $135 million project is being built in conjunction with the yet-to-be-constructed giant dam on the Konkoure River. The cost of the dam, put tentatively at $50 million, was to be financed jointly by the Pechiney Group with the French Overseas Development Fund, with possible help from the World Bank. It is on this project, now in doubt, that much of Guinea's future economic development hinges.

It has been said that Guinea's dynamic Premier Sekou Touré is politically shrewd but economically naive. His actions, political and economic alike, will in a large measure determine the

TEXACO REPORTS FOR 1958

HIGHLIGHTS

FINANCIAL	1958	1957
Gross income	$2,475,629,730	$2,449,162,410
Net income	$ 310,167,805	$ 332,303,644
Per share outstanding at end of each year	$5.31	$5.94
Number of shares outstanding—end of year	58,388,074	55,937,434
Cash dividends	$ 134,769,229	$ 128,906,925*
Per share	$2.35	$2.35*
Total assets	$3,111,526,969	$2,789,094,629
Equity in total assets of nonsubsidiary companies and subsidiaries not consolidated	890,000,000	901,000,000
Total	$4,001,526,969	$3,690,094,629
Capital and exploratory expenditures	$ 514,534,733	$ 481,708,331

In addition, a 2% stock dividend was paid in 1957.

**OPERATING • Barrels per day	1958	1957
Gross crude oil produced:		
Western Hemisphere	647,477	617,519
Eastern Hemisphere	453,249	435,536
Total world-wide	1,100,726	1,053,055
Refinery crude oil runs:		
Western Hemisphere	849,533	794,607
Eastern Hemisphere	275,147	268,990
Total world-wide	1,124,680	1,063,597
Petroleum product sales:		
Western Hemisphere	839,806	735,098
Eastern Hemisphere	325,860	320,510
Total world-wide	1,165,666	1,055,608

***These statistics include 100% of the operations of subsidiary companies and the Company's equity interest in the operations of companies owned 50% or less.*

CONSOLIDATED BALANCE SHEET—DECEMBER 31

ASSETS

	1958	1957†
Current Assets:		
Cash and securities	$ 393,931,287	$ 289,866,336
Accounts and notes receivable	321,250,407	279,599,475
Inventories	314,283,555	374,628,488
Total	$1,029,465,249	$ 944,094,299
Investments and Advances	171,252,856	180,648,163
Properties, Plant, and Equipment:		
Gross	3,708,388,309	3,189,622,656
Less — Depreciation, depletion, and amortization	1,873,935,133	1,599,537,399
Net	$1,834,453,176	$1,590,085,257
Deferred Charges	76,355,688	74,266,910
	$3,111,526,969	$2,789,094,629

LIABILITIES AND STOCKHOLDERS' EQUITY

	1958	1957†
Current Liabilities	$ 401,991,085	$ 348,372,466
Long-Term Debt	348,090,313	306,739,743
Reserves for Employes' Plans	39,606,196	57,122,978
Minority Interest	38,097,378	37,471,373
Stockholders' Equity:		
Par value of capital stock issued—shares $25 each	1,500,391,625	1,408,887,650
Capital surplus	—	38,675,350
Retained earnings	827,782,548	605,806,125
	$2,328,174,173	$2,053,369,125
Less—Capital stock held in treasury	44,432,176	13,981,056
Total	$2,283,741,997	$2,039,388,069
	$3,111,526,969	$2,789,094,629

†Reclassified for comparative purposes

CONSOLIDATED INCOME STATEMENT

	1958	1957
Gross Income:		
Sales and services	$2,327,938,837	$2,344,176,856
Dividends, interest, and other income	147,690,893	104,985,554
	$2,475,629,730	$2,449,162,410
Deductions:		
Costs, operating, selling, and general expenses	1,766,602,778	1,684,072,902
Taxes (other than income)	74,909,704	69,845,086
Dry hole costs	34,185,442	45,428,145
Depreciation, depletion, and amortization	233,044,710	216,176,860
Interest charges	12,066,997	12,512,084
Provision for income taxes	41,300,000	83,900,000
Minority interest	3,352,294	4,923,689
	$2,165,461,925	$2,116,858,766
Net income	$ 310,167,805	$ 332,303,644

Copies of the Annual Report are available upon request to the Secretary, The Texas Company, 135 East 42nd Street, New York 17, N. Y.

TEXACO

...CONSTANT PROGRESS IN OIL'S FIRST CENTURY

willingness of foreign capital to participate in Guinea's growth. In a calculated move he has thus far rebuffed offers of aid from the Soviet Union. The U. S. has reciprocated by underwriting $72 million, representing Olin Mathieson's share in the bauxite project. This should help other projects already in progress, but whether it will encourage a new flow of U. S. capital remains to be seen.

In addition to long-term development projects, Premier Touré has a host of immediate economic problems to worry about. Efforts will have to be made to balance the budget, until now heavily subsidized by the French Government. Funds to complete public investment programs started by the French must now be found. Guinea also must be ready to meet stiffened competition for her coffee and bananas in the French market now that it no longer has free-entry privileges. It is also likely that continuation of export financing by French banks will be affected by the recent changes. Getting 3,000 new technicians and administrative officials to replace the French will also be a difficult task in a country with 95 per cent illiteracy.

In a move to meet these problems, Premier Touré expressed his country's intention to remain in the franc zone and to seek the closer association with France provided in the new French constitution. Guinea's immediate financial difficulties were eased last November when Ghana offered a $28 million bail-out loan.

Summarizing, Guinea's long-range economic prospects are bright, despite the country's present difficulties. Much, however, depends on the course of political and economic action Guinea's leaders take in the days ahead. Premier Touré's Marxist background does not inspire too much faith, but, in the final analysis, it is not his past but his present record that counts.

Morocco and Tunisia — In the northwestern corner of Africa, flanking Algeria, lie Morocco and Tunisia, two former French protectorates, and both independent since 1956. In many ways their position in the family of emerging African states is unique.

Politically, they are much more cohesive and mature. When in 1787, Morocco signed the still-effective treaty of friendship with the newly-born United States of America, it had been an independent country for 1,000 years. Similarly Tunisia, had been a largely autonomous part of the Ottoman Empire for over 300 years before falling under the influence of France.

Their economic patterns and problems have much in common. In both countries agriculture remains the backbone of economic activity, supplemented by a variety of mineral deposits. Morocco has coal and the world's largest phosphate reserves. In Tunisia, phosphate rock, iron ore, lead and zinc account for 30 per cent of total exports.

In both countries population has been growing faster than production, thus bringing underemployment, thus bringing standards and growing dependence on foreign assistance. To feed and to absorb their rapidly growing labor force, Morocco and Tunisia will have to push industrialization and modernization of agriculture. Lacking sufficient capital resources, they have turned abroad for funds. Liberal laws offering protection and privileges to foreign capital have been enacted to spur investment. Meanwhile, both countries depend on American and French aid and military disbursements to pay for needed imports to finance basic economic development projects.

U. S. Stake in Africa

Until recently, American interests in Africa were predominantly economic. *In politics,* the U. S. maintained a "hands off" policy imposed by the dilemma of trying to reconcile our strong anti-colonial tradition with a disinclination to alienate our Western European allies.

U. S. direct private investments in Africa have been rising and today total about $1 billion, including nearly $300 million in U. S. —owned and— controlled Liberian flag shipping. Mining and petroleum distribution each account for some 30% of the total. Manufacturing —largely in the Union of South Africa— follows with about 20 per cent.

After Liberia, the Union of South Africa has been the largest outlet for U. S. funds. Operating in the Union today are such companies as General Motors, American Motors, International Harvester, Goodyear, Firestone, and Masonite. High yields have also attracted mining companies like Kennecott Copper and Newmont Mining. Growing interest in that area was highlighted last year by the opening of branches by two leading New York banks.

Other parts of Africa are also benefiting from the inflow of U.S. capital. In Algeria and Tunisia, Standard Oil (N. J.) has invested over $70 million in oil bunkering and distribution facilities. In Rhodesia, Guinea and the Belgian Congo, U. S. companies are active in mining operations.

U. S. trade with Africa last year totaled $1.2 billion, only one seventh the value of our Latin American trade. But, as our own resources of raw materials continue to shrink, our reliance on the mineral wealth of Africa is likely to grow. Similarly, as African economic development gains momentum, our export markets there should expand, unless our goods are priced out of world markets by ever-rising labor costs.

U. S. aid to Africa since the war has been minimal. Less than 1 per cent of total grants and 3 per cent of all loans have been allocated there. The presence of colonial powers, through which the aid had to be administered, made large scale aid programs unfeasible. But, as more African countries gain their freedom, U. S. interest in keeping them politically stable and economically viable will probaby lead to higher aid outlays. END

Electronics—Makers of Devices and Controls

(Continued from page 27)

than any year since 1954, but of greater importance is the fact that earnings failed to show any real progress even in the flush years of 1955, 1956 and 1957.

In each year something has come along to interfere with the company's progress. In 1956 it was the slowdown in car sales, in 1957 defense stretchouts and in 1958 the recession. The fact remains, however, that electronics has been no panacea for Bendix.

As a bit of poetic "injustice", however, **American Bosch Arma**, which stretched its wings out of the auto parts industry much later than Bendix, hit the jackpot much quicker. When the Air Force chose the *Atlas* as its prime IC-

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BM, it also chose American Bosch's inertial guidance system for the missile (Burrough's Corp. was also a principal developer of this system). Since the Atlas is scheduled to become operational by mid-1959 a substantial pickup in sales can be expected this year.

Sales fell to about $110 million from $134 million last year, and earnings dipped to the $2.50 per share level from $2.67, but a quick recovery is expected in 1959.

Another company that hit the defense "jackpot" is **International Telephone & Telegraph**. In recent years I.T. & T. has concentrated on reducing its utility holdings abroad while building up its electronics manufacturing facilities both at home and overseas. The policy has already paid off in higher earnings, and since over 90% of revenues now stem from manufacturing, the stock is no longer vulnerable to foreign political maneuvers aimed at American-owned utility companies. (The action of Castro regime in Cuba rescinding recent phone rate increases of I.T. & T's Cuban subsidiary passed practically unnoticed in the market.)

But most importantly, it has paid off through the company's leading role, along with RCA, in the Air Force 480L project. Since the communications network is to be world wide, International was an ideal candidate because of its world-wide manufacturing facilities. As a matter of fact, over 60% of the company's revenues derive from overseas operations, a factor which affords stockholders substantial tax advantages. Moreover, if pending legislation designed to encourage investment abroad is passed in Congress, the company should reap further tax benefits.

The potential of the 480L project is enormous. So far it is in the "study" stage, but ultimately it will absorb billions of dollars —and as a prime contractor, I.T. & T. seems assured of obtaining a large share.

The Industrial Control Producers

In the industrial field, most of the companies felt the full impact of the recession. Military orders were an offset for most, but for those that have concentrated primarily on commercial production 1958 was generally a painful year. **Square D,** an important producer of distribution and electrical control devices suffered a sharp drop in sales and a decline in per share income to about $1.25 from $1.74 a year ago. In part the company's problems stem from a rapid increase in its capacity, much of it now lying idle, but of greatest significance was the low level of ordering during the recession and the slowness with which demand has picked up since.

By mid-1959, as industrial production moves into full swing, Square D's operations should begin to improve, but the first half will prevent a real recovery in earnings for the year as a whole.

Cutler-Hammer was in the same boat in 1958, but two factors have combined to make the 1959 outlook more attractive. The first is the company's product lines. Specializing in controls for electric motors, it is reaping immediate benefit from the large increase in motorized automatic machinery. Secondly, the merger last year with Airborne Instruments has brought in substantial defense contracts that should help stabilize operating rates and also absorb overhead costs.

Unlike Square D and Cutler-Hammer, **Robertshaw-Fulton** enjoyed a good year in 1958. Sales and earnings dipped slightly, but the $2.40 per share in profits was an impressive showing measured against $2.36 in 1957. In general, a vigorous research and new product development program deserves most of the credit for the company's position. But of equal importance is the fact that Robertshaw's principal market relates most closely to the home-building field — and this was one of the economy's strongest points in 1958.

In 1959, new products, plus a continuation of a good level of homebuilding should raise earnings to higher levels. The stock is still not overpriced compared with similar issues, and offers a fairly attractive 4% yield

Horizons

Despite spotty profits performances, professional and amateur investors alike remain intrigued with the limitless potentialities of electronics. Thus, despite meager earnings **Beckman Instruments,** which had a per share loss of 70¢ in 1958, soared into the mid-fifties in price on the strength of a new electronic medical device. Whether potential will ever reach expectations is problematic, but the spate of new developments pouring from the industry like clockwork apparently assures continued public interest.

In addition to Tung-Sol's new tube, and RCA's recently announced new type miniature tube, many companies are increasing their research budgets in the relatively new and untested field of "infra-red". The main reason for the interest in this new field is that infra-red offers the best potential solution to the problem of missile interception. A defense missile guided by an infra-red device would find its target by "homing" on the heat of a hostile missile's engines. Since such a device would not be radio controlled it would be free from jamming and other forms of interference a hostile nation can be expected to use to confuse our radio and radar defenses.

As long as defense remains big business, electronics issues can be expected to remain in the limelight. END

Will Supreme Court Decision End Free Trade Between the States?

(Continued from page 10)

related, but not identical, tax situation might require all states to do likewise. (The cases seem disparate: the one cited by the Minnesota court concerned ad valorem taxation on physical properties permanently located within a state other than the company's principal place of business. It did not touch income.) But in any event, consoled the state court, there is constitutional prohibition that "prevents the doubling up or multiplying of the burden in such a way as to result in a total taxation of *more than 100 per cent of the net income of the corporation.*" That boils down to judicial assurance that no firm need fear anything more drastic than confiscation of its income by the collectors. No deficiency judgments, presumably!

The litigation reached the Supreme Court of the United States with one holding in support of state taxation of earnings in interstate commerce (Minnesota), and one which reached the opposite conclusion (Georgia). The highest court affirmed the former and reversed the latter.

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The Majority Opinion

The majority opinion was written by Justice Tom Clark. He alluded to the fact that the Supreme Court has ruled on the commerce clause in more than 300 cases involving state statutes — tax and otherwise — and established this among the firm peaks of decision which remain unquestioned: "It has long been established doctrine that the Commerce Clause gives exclusive power to the Congress to regulate interstate commerce, and its failure to act on the subject in the area of taxation nevertheless requires that interstate commerce shall be free from any direct restrictions or impositions by the states."

Having stated the general proposition, the opinion then moved to the distinguishing factors it found in the instant cases: "The taxes are not 'regulations' in any sense of that term. Admittedly they do not discriminate against nor subject either corporation to an undue burden. While it is true that a state may not erect a wall around its borders preventing commerce an entry, it is axiomatic that the founders did not intend to immunize such commerce from carrying its fair share of the costs of the state government in return for the benefits it derives from within the state. The levies are not privilege taxes."

The court placed store in the fact that states in the cases under examination were seeking to tax interstate earnings only to the extent that they arose within the taxing state. This, said the judges, cannot "burden" commerce if apportionment formulas are followed uniformly. The possibility that apportionment might not exist in some states was conceded, then brushed aside with the comment: "There is nothing to show that multiple taxation is present. We cannot deal in abstractions."

Minority Opinion

Justice Felix Frankfurter assured there is no "dealing in abstractions" because, he wrote "among all the hundreds of cases dealing with the power of the states to tax commerce, there is not a single decision adjudicating the precise situation before us. Concretely, we have never decided that a state may tax a corporation when that tax is on income related to the state by virtue of activities within it, when such activities are exclusively a part of the process of doing interstate commerce. The state gives to a corporation so engaged nothing which it can withhold and therefore nothing for which it can charge a price whether the price be the cost of a license to do interstate business or a tax on the profits accruing from that business."

Justice Frankfurter foresaw every state which has not already done so, setting up a system of tax apportionment to mulct the revenues of interstate commerce thereby rejecting the Constitutional finding that the advantages of making the United States a "free trade territory" would benefit each state.

Proceeding to the economics of the cases, the dissenting justice said thousands of relatively small or moderate size corporations doing exclusively interstate business will suffer severely. The effect of the majority opinion was depicted as forcing upon these companies a separate income tax in each state, which in turn means that they will have to keep books, make returns, store records, and engage legal counsel to meet the diverse and variegated tax laws of the 49 states, with their different times for filing returns, different tax structures, different modes for determining "net income" and, very likely, different formulas of apportionment.

Businessmen agreeing with the dissent translate this into large boosts in bookkeeping, accounting, and legal costs. In the case of a small company doing relatively little business in each of many states the costs of preparing to pay the tax might well exceed the very tax itself.

Without question the decision will bring demand for legislative processes to be evolved in Washington. Justice Frankfurter agreed "the problem calls for solution by devising a congressional policy" explaining: "Congress alone can provide for a full and thorough canvassing of the multitudinous and intricate factors which compose the problem of the taxing freedom of the states and the needed limits on such state taxing power.

"Congressional committees can make studies and give the claims of the various states adequate hearing before the ultimate legislative formulation of policy is made by the representatives of all the states. The solution of these problems ought not to rest on the self-serving determination of the states of what they are entitled to out of the national resources."

The Supreme Court made a similar recommendation before. Northwest Airlines had become embroiled in a tax dispute with Minnesota. In its decision the court suggested that the Civil Aeronautics Board make a study and report to Congress on methods of eliminating burdensome, multiple taxation of airlines. The report which came out of this was a 158-page document whose length and complex economic content in dealing with only a single subject of state taxation, fully illustrated both the difficulties and nonjudicial nature of the problem. Several bills are pending in Congress.

A similar situation existed in the earlier days of railroading. It has not been fully solved as yet. The rails, as is the case with airlines, maintain terminals, ticket offices and other intrastate facilities but their revenues must be allocated out of difficult-to-isolate sources.

Australia has resolved the problem by a national arrangement whereby taxes are collected by the Commonwealth and, from these revenues, appropriate allocations are made annually to the states through the mechanism of a Prime Ministers Conference — the Prime Minister of the Commonwealth and the Prime Ministers of the several states.

In decisions which came only one week earlier the Supreme Court lessened the effectiveness of the commerce clause in another pair of cases which involved state taxation and again Justice Frankfurter dissented. This time with Justice Harlan sided with him. It has been more than 130 years since Chief Justice Marshall wrote his (Brown vs. Maryland) opinion, unanimously seconded, that a state may not tax imports from foreign countries while retained in their original "package" or prior to the use of the goods or their sale. That era ended Feb.

24. The Youngstown Sheet & Tube Co. imported ores from five foreign countries for ultimate use in its Ohio blast furnaces. The imports were segregated because each is for a different use; huge bins are mantained several miles from the plant for this purpose and as needs arise, quantities are transported to stock bins adjacent to the furnaces. The stock bins hold a few days supply; the large storage is kept for estimated requirements for about three months. In spite of the long respected rule of law, the state of Ohio labeled both types of storage a conversion to use, taxed both, and the Supreme Court upheld the decision. The dissenting jurists professed inability to square that finding with the long-followed rule laid down 132 years ago by Chief Justice Marshall: "While remaining the property of the importer, in his warehouse, in the original form or package in which it was imported, a tax upon it is too plainly a duty on imports to escape the prohibition of the constitution."

In U. S. Plywood Corporation vs. the City of Algoma (Wisc.) the state taxed lumber brought from Canada and other countries, part of which was placed in a warehouse and part stored in the open to speed the drying process. The basis, upheld by the Supreme Court, was that the stored plywood was available to meet operational needs, while drying other lumber was a step in its manufacture — that in both instances interstate commerce had ceased the commodities were in stages of processing. END

Can Variety Chains Regain Former Share of Consumer Spending?

(Continued from page 35)

the south and southwest in order to give the company a better geographical diversification. Murphy also has modernized a number of its stores, instituting "Quick Service" in almost half of its outlets.

Despite the drop in revenues, shares are currently selling at 13.5 times earnings, which is close to the average for the group. The $2.12½ annual dividend yields 4.0%. While Murphy has a longer range potential based on its proposed expansion program, the prospects for earnings improvement are no better than average.

Neisner Bros.: This chain also is predominantly situated in industrial areas, including the states of Michigan, Ohio and New York. Reflecting the depressed economy in these areas, earnings fell from 79¢ in 1957 to 43¢ in 1958. Thus far the 20¢ quarterly dividend has been paid, but unless there should be a substanital recovery in earnings this rate may not be maintained. It should be noted, however, that the company has a strong working capital position.

The company operates about 150 stores and has a moderate expansion program planned over coming years. Five stores will be opened and eight are scheduled for remodeling in the near future. Expenses of the chain have been cut sharply in each of the last two years but it has not been sufficient to permit an improvement in earnings. On balance, this chain appears to have below average prospects in the group.

J. J. Newberry: As a result of an early start on its expansion program, Newberry has been able to improve its profit margin despite the concentration of its stores in the New England and mid-Atlantic states. For 1958 earnings were $3.06 compared with $2.75 for 1957 after a sales' rise of 10%. Management has increased its price lines since 1945 and has concentrated on fashion merchandise and soft goods. Credit sales have also been used fairly widely. Over the coming year the expansion program will be moderated slightly, but still contemplates addition of 5-8 new stores. There will also be further expenditures for conversion of older units to self-service type of operation. At the recent price the stock is selling at about 14 times 1958 earnings and the $2 annual dividend yields about 4.7%.

F. W. Woolworth: With over 2,100 stores in the U. S., Canada, Cuba, Puerto Rico and Hawaii, Woolworth is the largest chain of retail variety stores in the world. In addition, subsidiaries operate over 1,000 stores in Great Britain, Germany and Mexico. The long term earnings record of this chain has been one of remarkable stability, although in recent years

its profit margins have narrowed along with the remainder of the chains. Woolworth has not pioneered new methods, but has adopted those that have been found to be workable and valuable. One innovation that was instituted last year was an extensive advertising program using local publications. According to management the advertising budget is to be doubled in 1959. The company is continuing to expand and will spend about $32 million in the current year compared with $28 million last year. Approximately 100 stores will be opened this year with a trend toward larger stores that can accommodate a broad assortment of merchandise.

For 1958 Woolworth reported $3.34 compared with $3.44 in 1957. Of these amounts, dividends from the British and German subsidiaries were approximately $1.25 in 1958 compared with $1.20 in 1957. At 16½ times earnings and yielding 4.5% the issue reflects its good quality and modest growth prospects END

Electronics — Business Machines

(Continued from page 31)

greater competitive conditions, but up to now it has held its own, under the far-sighted management of Thomas Watson, Sr. — and Thomas J. Watson, Jr., seems to be a chip off the old block.

I therefore believe we can count on this company for consistent ingenuity, aggressiveness and original products, one of the latest being a teaching machine for the education of the young.

Pitney-Bowes, the leading manufacturer of postage meters and other types of mailing machines, also enjoyed a banner year in 1958. Rental revenues account for almost 50 percent of the company's income, a factor which helps explain the good showing.

Last year revenues expanded to $51.3 million from $46 million in 1957 and per share earnings rose to $3.20 from $3.07. Dividends were increased for the fifth year in a row and now amount to $1.60 on the present shares. As of May 15, 1959, the stock will be split three for one.

The only black spot in the company's future is the recent Consent decree entered into with the Department of Justice in which the company agreed to grant royalty-free licenses on its equipment to all companies authorized by the Post Office to handle mailing machines. Immediately, the lack of competition should limit the effect of the decree. In time, however, Pitney-Bowes may no longer have this field as an "exclusive."

Burroughs Digging Out from Under

The problems of the companies whose earnings receded in 1957 is probably best exemplified by **Burroughs Corp.** Sales continued to score year-by-year gains, mounting to $294 million in 1958 from $282 million a year earlier. Profit margins slipped for the third consecutive year, however, reaching a post-war low of only 8% of sales. Per share earnings followed the profit margin figures and slid to $1.02, the lowest point since 1947.

Research and development costs accounted for much of the decline, but of equal importance was the sales slowdown in such bread-and-butter items as adding machines and cash registers.

In a recent discussion with a *Magazine of Wall Street* representative, however, Burroughs' President, Ray R. Eppert pointed out that the company seems to have turned the corner. Until now developmental expenses have

been a drain only, but orders on the books and the ready acceptance of new products by customers indicates that the research efforts should pay off in 1959-60.

Until now orders could not be filled because manufacturing facilities were not available. Now, however, although some tooling and training expenses will still be incurred in 1959, the company is equipped to meet the demand for its products.

The dismal 1958 showing, therefore, may prove to be the low point in Burroughs' fortunes. A return to fairly decent profit margins in the year ahead, even if below the company's normal level, should raise earnings.

Improvement Seen For National Cash Register

Despite two consecutive years of declining earnings **National Cash Register** still qualifies as a soundly expanding enterprise. Sales have grown in every postwar year, climbing to a new high of approximately $390 million in 1958, but heavy research and development expenses have held back per share profits.

In 1959 the company will spend huge sums on new facilities for turning out new lines of electronic equipment. As a result, it would not be surprising if National resorted to new financing during the year. Thus although sales and earnings should improve, there may be some dilution of the common in addition to the forced conversion that occurred recently when the company called its outstanding convertible debentures.

Despite the dilution however, large increases in defense business combined with a normal post-recession pick-up in such basic items as cash registers and accounting machines could lead to earnings of between $2.75 and $3.00 per share.

Better Future for Sperry

After several years of declining earnings and exceptional troubles, **Sperry-Rand**, one of the leading producers of electronic business machines, appears ready to resume an upward profits trend.

Sperry's problems have been complex. First, the merger between Sperry and Remington-Rand entailed more difficulties than either company had imagined, but these now appear to be straightened out. Secondly, the company's broad diversification has worked against earnings progress as one division and then another was hit by slowdowns, stretchouts or work stoppages.

As a prime controls and devices producer, Sperry could reap large benefits from the defense program next year. In addition its computers will be in good demand in the missile field, with the "Univacs" continuing to be popular in both industry and the military. Furthermore, with farm equipment business running at good levels, this division should finally stop dragging down overall earnings figures. In consequence, Sperry, which recently received several new and important military contracts, should have better days ahead.

Last year was a disappointment, however. Sales climbed again to almost one billion dollars, but earnings failed to recover from the 96¢ per share level of 1957. It appears, however, that production "bugs" have now been worked out of several important defense contracts, indicating a widening of profit margins ahead.

The Laggards

For the companies that delayed in entering the electronic business machine business, 1958 was a particularly painful year. **Smith-Corona-Marchant** is trying hard to make up lost ground since the merger between Smith-Corona and Marchant Calculator. However, major product lines still consist essentially of typewriters and desk calculators — and both of these items were quick recession casualties. A subsidiary is busy developing communication and related electronic equipment, but earnings potential from this source is still in the future.

Similarly, **Royal-McBee**, which specializes in recession-hit typewriters and accounting machines, has tried to bridge the electronics gap through its Royal Precision subsidiary (jointly owned with General Precision Equipment Corp.)

Aside from a sharp sales drop in 1958 to $95 million from $108 million a year earlier, the company also suffered from stepped up research expenses and capital costs for its electronics subsidiary. As a result earnings for fiscal 1958 plummeted to 3¢ per share from $2.68 in 1957.

As the recession subsided orders picked up, but it is significant that operation were still losing money in the first quarter of the new fiscal year.

Summary

As with most of the electronics field, the future for the office equipment and computer makers appears unlimited. Technological progress is so rapid that many new devices are obsolete before they are ready for production.

Recently, in fact, a new development occurred which may displace many of the automatic tools that industry has been gobbling up in recent years. These machines are built to take their orders from human operators. Now however, a system has been devised in which a high speed digital computer will calculate all of the steps a machine must go through to properly turn metal parts for aircraft — and then give the orders to the machine to carry out its findings. Numerical controls for automatic tools are in operation in many industrial plants, but human labor has proved too slow in instructing these machines. The human difficulties have apparently now been overcome.

It is impossible to foretell the full impact of such devices. Nevertheless the constant flow of such revolutionary machines from research laboratories assures a bright future for the industry.

END

State and Municipal Bonds As Investments Today

(Continued from page 17)

purposes as schools and parks, which yield no income in a tangible form.

Creation of Public Authorities

A modern trend at all levels of government has been the creation of "authorities" to operate public projects with greater flexibility and continuity than political jurisdictions could do directly. The obligations of these authorities have poured on to the market in such volume as to gladden the hearts of municipal dealers, but as such debt is self-sustaining and normally without recourse upon the states' general funds, it should also be excluded from the general obligation total. To be sure, the "authority" method is occasionally employed as a subterfuge to support a non-sustaining governmental function. *Wisconsin*, for example, has no ordinary debt, but the state office buildings have been established as "agencies" which have $25 millions of indebtedness of their own.

Revenue Bonds

The quality of revenue bonds is primarily determined, of course, by characteristics of the operations upon which they are secured. For this reason they usually carry a lower rating and must offer a sightly higher yield than the general credit obligations of the same issuers. But revenue bonds are, on the whole, attractive and defaults in recent years have been rare. This should not be surprising, for a publicly owned utility, relieved of the corporate utility's burden of property and income taxes, would have to be inefficient indeed if it could not at least cover operating expense and interest charges. Bonds secured either upon highway tolls or upon gasoline and motor vehicle tax receipts also look relatively safe, barring only the repetition of some experience like World War II's gasoline rationing. The sad exception to this favorable record has been the *West Virginia Turnpike Commission* bonds. From the beginning, traffic on this road fell substantially below expectations, making a default upon interest unavoidable in June of last year. The current rating of CAA for these bonds reflects their speculative status.

While toll road projects flourished between the end of the war and 1954, the ambitious federal roadbuilding program has now put a quietus on new toll road schemes. The flow of revenue bonds for other public projects, however, is likely to remain unchecked.

General Credit Obligations

But our primary concern here is with general credit obligations. Inspection of the schedule of the faith and credit indebtedness of the several state governments reveals a wide disparity in amounts. Eleven states are in a happy debt-free position and another five have only nominal debt of less than $10 per capita. At the opposite extreme, *California* easily leads the parade, with one and a third billion dollars of debt outstanding — more than the entire federal deficit as recently as 1915. However, California's fiscal position is considerably sounder than a superficial glance might suggest. First of all this debt is not excessive per capita for the state which enjoys the fourth highest per capita income in the country. More importantly, the bulk of the debt — $795 million, or 60% — was issued to finance the purchase of homes and farms by veterans and is secured upon those properties. In effect, the state has entered the mortgage loan business on a large scale. Naturally, such commitments could prove embarrassing in a depression, as they did in the 30's to many savings institutions, but under all normal conditions this can be considered a self-liquidating debt. Certainly the use of borrowed money to finance real estate purchases by veterans is considerably kinder to future taxpayers than the practice of a number of other states in using the proceeds of bond issues as outright cash distributions to veterans.

While *New York State* still ranks first in population, it trails California in debt. At $999 million total or $61 per capita, this is not excessive although, as will be explained later, New York's heavy municipal debt aggravates its fiscal problems. A much smaller proportion of its debt than

for California is self-sustaining; the $432 million incurred for housing and $112 million for highways may provide a partial return, but the $132 million for institutions, $174 million for grade crossing elimination, and $129 million for canals contribute no offsetting income. New York's generosity in operating a toll-free system of expensive canals for the benefit of large corporate shippers is certainly questionable, but rather than substitute fair user charges the state now proposes to transfer this dubious asset to the federal government.

The unchallenged and unenvied claim to the highest per capita debt — $438 — belongs to the small state of *Delaware*. Even as the home of the du Ponts and happy recipient of the second highest per capita income in the nation, this level of debt is uncomfortable. Nevertheless, the state still enjoys the relatively high double A rating on its general credit obligations.

Local Potential Bond Issuers

But the examination of state debt alone gives far from a complete picture. Besides our 50 states we also have:

3,050	counties
11,199	cities
17,214	townships and towns
50,482	school districts
14,442	special districts

all of which are at least potential bond issuers. The division of responsibilities between states and local governments varies widely throughout the country. Some state governments, for example, assume primary responsibility for education within their borders; elsewhere education up to college level is strictly a local function. Methods of raising public funds, and the degree of reliance upon borrowing versus taxation differ widely from one state to another. In point of fact state governments have incurred only about a quarter of the aggregate state and local debt outstanding, while subsidiary jurisdictions are liable for the remainder. Any fair comparison of the financial standing of different states must also reckon with this local debt.

Significance of Per Capita Debt

The resultant statistical measure of combined state and local per capita debt is much more significant than state debt by itself. In general, combined state-municipal per capita debt shows considerably greater uniformity than state debt alone; this is to be expected, as all states, through one jurisdiction or another, provide broadly comparable services in education, public works, old age assistance and other spheres now regarded as a public responsibility. Nevertheless, unusually heavy costs of governmental services, including such capital items as new schools, new roads and new sewers, in some of the more thickly populated or more rapidly growing states do represent a difficult burden even though the same states usually enjoy a higher than average per capita income. Nowhere else does the cost of local services rise higher than in New York City, which has been obliged to incur net funded debt of $3.310 billions — which is considerably higher than that of any state government — or $370 per capita. This, with the debt of the numerous other municipalities, lifts New York State's combined state-local debt to $317 per capita, trailing only the debt load of Maryland with $372 and Delaware with $482 per capita.

But despite this high debt total *New York State* still enjoys the coveted AAA credit rating. (New York City, however, ranks only A). Michigan's recently publicized difficulties have not reduced the ratings assigned its most recent offerings below AA, and heavily-bonded Delaware, which is also threatened with some early financial stringency, retains the same rating. The single A is, in fact, the minimum rating assigned the general credit obligations of any state by the standard financial services, and only seven states, mostly in the South, are that low.

How can such relatively high credit ratings be reconciled with the general fund deficits of some of the states, their swelling debt totals and the almost desperate search for new sources of tax revenue? The truth is that the debt load of no state as yet approaches a level that is really excessive, in terms of population, and per capita income. Reports of financial difficulties have been misleading, and certainly the term "crisis" in connection with the financial condition of any state is a considerable exaggeration.

The Situation in Michigan

Let us examine *Michigan's* situation a little more closely. At the end of the war the state was debt-free; today its general obligations total $195 million, or $27 per capita ($147 per capita for combined state-local debt.) This consists of $149 million veterans' bonus and $46 million hospital bonds. The veterans' bonus, on a graduated scale with a maximum of $500, was generous as compared with the action of other bonus-paying states, and in any case was money right down the drain as far as any lasting benefit to the state is concerned. Michigan has also become pretty largely a one-industry state, and thus its tax receipts were severely affected by the automotive recession of 1956-58. And even when the industry has recently shown a partial recovery, re-employment has still lagged, causing a continued heavy burden of welfare payments. Even so, Michigan's financial embarrassment is technical rather than basic. The state constitution places no limit on general indebtedness, but does restrict borrowing in anticipation of tax receipts to a mere $250,000. This contrasts with an estimated state deficit of $100 million dollars by June; welfare expenses alone are currently running at $2 million per month. Nevertheless, Michigan's immediate problem can be solved by a new bond issue of $50 million or $100 million, a proposal for which is currently being debated in the legislature. While the practice of issuing debt merely to fund operating deficits could become a dangerous habit, the state's fundamental credit position is hardly threatened as yet.

Population as a Revenue Factor

With rising population and a constant clamor for new services, the general revenues of all states are running a tight race with expenditures. In 1956, in fact, the total expenditures of all (48) states of $18,857,000,000 slightly exceeded revenue of $18,389,000,000. This means that, as a rule, capital improvements can only be financed out of debt. But the taxpayers have so far proved quite willing to mortgage their own future incomes or their childrens' for today's schools and roads. Two future developments could, to be sure, threaten the security of today's massive bond issues; one would be a depression that would drastically reduce both public revenues and personal incomes; the second would be a taxpayers' revolt or mass migration of wealthy citizens and principal industries. Neither of these eventualities is impossible, and yet in the light of our current prosperity they are certainly remote contingencies. In any case, all investments must be considered in a relative sense, and the unlimited taxing power inherent in state and local governments gives their obligations security against all but the most extreme conditions.

In actuality, state finances are generally on a sounder basis than those of the federal government. For whereas the latter can raise money, when conventional methods fail, by printing it, the states fortunately lack this dangerous facility, and must subsist either from taxation or borrowing. And many proposed state and local bond issues must be presented for the approval of the electo-

rate at large. The states can also happily leave the overwhelming burdens of national defense and foreign aid up to the federal government.

This is not to say that state and local governments cannot be fiscally irresponsible. The heavy state-local debt totals of such states as *Delaware, Maryland* and *New York*, if not dangerous as yet, suggest that more difficult problems must be faced in the early future. The rise in tax-exempt interest rates over the last two years, from under 2% on long-term maturities to well over 3% at present, has added substantially to the burden of carrying heavy debt. Unless we are callously to adopt Louis XIV's cynical attitude, "Apres moi le deluge," a decision must soon be made between economizing in governmental services or raising taxes to pay for more of these on a current basis. The present New York State-New York City drive to find new tax sources, however unpalatable, does represent a creditable attempt to meet rather than simply to postpone these fiscal problems.

In the last analysis state and local indebtedness must be related to per capita state income, and this ratio seems possibly disturbing only for Delaware and Maryland, with per capita debt at 18% and 17% of income respectively. No state has suffered a true financial crisis since the 30's, when Tennessee was obliged to carry out an extensive debt "reorganization." No crisis is threatened at present, although it will be unwise for the states already at the higher debt levels to continue to expand their debt faster either than the growth in population or state income.

Municipals As Investments

Because of their widely varying characteristics, it is difficult to analyze state and municipal bonds, and non-institutional buyers must rely primarily upon the assigned ratings or the advice of trusted dealers. These bonds are particularly attractive to the very wealthy because of their tax-exemption feature. However, they offer relatively little advantage to investors of limited or moderate means; yields are low, quotations and other information are hard to find, and the bonds are relatively unmarketable. In addition, like all bonds, public issues carry the inflation-created risk of considerable loss in purchasing power before their distant maturities. The typical investor should, accordingly, take a close interest in state financing practices as a citizen, but look elsewhere for investment opportunities. END

Contrasts in Corporate Performance

(Continued from page 14)

Preliminary results for 1958 show sales of $222,726,000, up 7.5% from $207,152,000 in 1957. Net income came to $4.43 a common share, against $4.23 in the previous year.

Outlook

1959 will be a year of change for the company. It has already stated that antibiotics are in plentiful supply making it unlikely that the current price structure can be maintained. Fortunately, however, the majority of present products are of comparatively recent origin chiefly attributable to an outstanding research department.

Olin Mathieson

Since the furor over its borane rocket fuels died down, Olin has been a disappointment in the market. Nevertheless there are several important reasons for believing that its "corporate performance" will improve considerably in the near future—and with it the price of the stock.

Lost in the disillusionment over rocket fuels is the realization that Olin is an exceedingly well diversified organization with top level subsidiaries in such wide fields as industrial chemicals, pharmaceuticals, explosives, aluminum and other metals, papers and films and phosphates.

Also unnoticed by many is the fact that Olin's performance in 1958 was not nearly as bad as it appears on the surface. Sales, in fact, soared to an all time high of $601 million despite a recession that hit all segments of its business. Earnings plummeted to 70¢ per share from $2.71 a year earlier, but herein lies a story.

At the end of the third quarter the company announced that it would write off substantial idle plant costs, start up expenses and developmental costs connected with its rocket fuel and aluminum operations. By year-end these write-offs totalled a tremendous $29 million or almost $2.20 per share.

With these non-recurring charges out of the way, Olin could score a stunning upsurge in earnings in 1959 if the economy keeps on its present upward course.

Picture of Current Operations

Naturally, the future is not clear cut. Olin operates in many industries and a lag in any one can hurt 1959's showing. In this connection, aluminum looms as the largest question mark.

Olin has unabashedly aimed at becoming the leader in the industry from bauxite all the way through fabrication and the sale of finished products. To embark on such a program entails enormous obligations to its Ormet subsidiary, which is jointly owned with Revere Copper & Brass. Unfortunately 1958 was a bad aluminum year and Ormet got off to a slow start. Nevertheless its financial obligations had to be met, and Olin also had to continue building its own rolling mill for handling Ormet's output.

The result has been heavy financing for Olin, — increasing its debt to $330 million with interest costs of over $14 million a year.

As offsets to this, however, there are the write-offs taken last year, which will stand the company in good stead as defense funds owing to it flow in. Moreover, through a Panamanian subsidiary, Olin has substantial hidden earnings that do not show up in published reports. The exact extent is unknown, of course, but only last year they were sufficient enough to allow the company to invest over $2 million in a Brazilian paper and pulp mill operation.

Furthermore, in view of the excellent operations of Squibb and the recovery now underway for most industrial chemical producers, it is conceivable that all divisions — other than aluminum — can return to their normal profit levels this year. As an estimate this could easily lead to earnings

of better than $3.00 per share.

Under the circumstances the quarterly dividend, which was reduced to 25¢ from 50¢ in mid-1958 may well be upped to the 35¢ or 40¢ per share level.

U.S. Rubber, Pfizer and Olin Mathieson are interesting studies in contrast. One, Pfizer, is riding the crest of a tide which seems unabated. U.S. Rubber appears ready to surge forward stimulated by new developments and a revitalized management. Olin Mathieson is just completing the job of mending badly damaged fences. Each in its own right, therefore, has interest and appeal.

U.S. Rubber has been a market laggard in its group due partly to slower development of foreign markets and to less expansion in other fields. Corrective action is being taken and greater dependence on tires should work out favorably this year. An encouraging official forecast of 1959 prospects brings attention to the modest price-earnings appraisal in the present market. Restoration of a stock dividend would considerably advance the return. On price, prospective earnings and probable return, it is currently most attractive.

Pfizer's grip on the future makes it difficult to take a restrained attitude toward the stock, although all elements are reflected in the advanced price. Since the stock first became available to the public it has been split the equivalent of nine-for-one, with another multiple of three evidently soon to come. Selling over 20 times prospective 1959 earnings and yielding about 2.1% on basis of 1958 dividends, its early future appears discounted.

While able to realize profit from its sound earning properties, Olin Mathieson has committed itself heavily to the future of the aluminum industry. It was influenced, doubtless, by some prospective narrowing, relatively at least, of the tremendous gap between steel and aluminum consumption. A resulting difficulty is that onerous burdens have been assumed which demand continuing attention so that the date of heavy pay-off to stockholders must necessarily be deferred.

END

As I See It !

(Continued from page 5)

toll of inflation. The problem is that many forms of economic activity cannot be financed by stock issues. The Federal Government, States and local governments and home builders and buyers are completely dependent on the willingness of people to lend at a fixed rate of interest. The "creeping inflationists" who want Government to do more and more, ought to be concerned about how Government will finance itself.

The Treasury's Debt Problem

The main sufferer from current inflation psychology is the U. S. Treasury. Home buyers are still getting the mortgage credit they need, though rates of 5¼ to 6% interest are required. State and local government obligations, carrying complete exemption from federal income taxes, are still attractive to the buyer. But U. S. Treasury obligations, the safest securities in the world, are regarded suspiciously by the general public and sophisticated investors alike. Savings bond sales are falling and redemptions are rising. And only last month the Treasury had a near failure on its refunding of $15 billion marketable maturities: no less than $2.1 billion, 23.3% of the total held outside the Federal Reserve Banks, were turned in for cash rather than the securities offered in exchange, though these were extremely attractive.

Aubrey G. Lanston, leading government securities dealer minced no words in telling the Kansas City Society of Financial Analysts what the trouble is: "We seem to have been entering into a new, different and dangerous kind of Government finance . . . I think it can be demonstrated that a close interaction has slowly but persistently developed between what goes on in the Government securities market, and what goes on in Congress regarding proposed and actual federal spending and in the budget . . . *there does come a time when the purchasing power of the currency in which the Government's obligations will be redeemed, or for which they may be exchanged in the market place, permeates their market values . . . when a Government—in this case the Congress—convinces the people that it regards the soundness of the currency as a casual consideration, some of the attractions to invest in its securities are lost . . .*"

Is Professor Slichter Confused?

Professor Slichter thinks he has the answer: merely offer an adequate rate of interest on Government bonds, and scrap the 4½% rate limitation on Government issues if necessary to attract buyers. This is the orthodox approach and it could work, if inflation were not a growing problem. But how much interest do you have to offer a man after you have assured him that any principal he puts into Treasury bonds will waste away?

In any case, Professor Slichter doesn't really want higher interest rates on Treasury bonds. High interest rates might check the "creeping inflation" he favors. There is no other way to explain his charge, made in the same "Meet the Press" interview, that the Federal Reserve's "tight money" policy is already "being carried too far today." If the Federal Reserve already has credit too tight and interest rates too high, it is hard to see how Dr. Slichter could honestly favor still higher interest rates on Treasury bonds.

The fact is that the "creeping inflation" approach to economic growth is full of contradictions. We had better recognize them now, than risk fiscal chaos and economic collapse when theory is put into practice.

The Wage-Cost Push

There can be no doubt that Professor Slichter has made an outstanding contribution to the understanding of how new forces in the economy can cause inflation. He was one of the first economists to recognize the inflationary potential of labor unions' constant drive for higher pay. As he put it on "Meet the Press", "the nub of the problem is the tendency for labor costs to rise . . . faster than labor productivity."

There is also no doubt that the constant upward pressure of wage costs on the price level is

(Please turn to page 60)

exceedingly difficult to check. Strong unions can force wage increases even in an atmosphere of unemployment as we saw in 1958 in the automobile wage settlement. But it would be foolish to go from these facts to the conclusion that government policy should foster and *"favor"* creeping inflation. For then we would have the union wage push without restraint and prices would begin to move up rapidly.

It is worth remembering that the settlement the automobile workers accepted in 1958, while substantial, was less than they would have demanded in a prosperous year. Mr. Reuther cannot ignore forever the fact that foreign cars are crowding more and more into the American market and displacing U. S. built cars in overseas markets. He knows that while this is in part due to changes in consumers' tastes, high prices have a good deal to do with the U. S. automobile industry's difficulties and prices are directly tied to uneconomically high labor costs. We are pricing ourselves out of the market. in autos and other goods as well.

Firm Federal Reserve credit policies and government fiscal policies to restrain "creeping inflation" are called for by the needs of the country. All labor union members and leaders are not so stupid as to press for excessive wage increases to the point where excessive unemployment is created because high prices choke off demand. Public opinion—and only one third of the labor force is unionized—is growing increasingly watchful of the tribute being exacted by aggressive and entrenched unions.

What is needed now is firm leadership to insure that whatever "creeping inflation" occurs will take place in the face of the sternest efforts to stop it. Professor Arthur Smithies, a colleague of Dr. Slichter at Harvard, points out that, *"Cost-push inflation cannot occur without at least permissive action on the part of the monetary authorities.* For inflation to occur, total demand must be allowed to increase sufficiently to validate the increased level of costs and prices that result from a push. On the other hand, inflation arising initially on the demand side is likely to be intensified by autonomous tendencies for wages and prices to increase. Whatever the precise diagnosis, *the fact remains that any kind of inflation can be restrained, if not eliminated, by the exercise of appropriate controls of aggregate demand."*

Eyes of the World Upon Us

Meek acceptance is not the way to stop "creeping inflation" or anything else. Courage and a stiff application of restrictive credit policies and fiscal responsibility just might. We need to make the try. The whole world is watching us, as Federal Reserve Board Chairman Martin warned last December after a trip abroad:

►"One distressing experience was to find among intelligent and perceptive men in those countries a growing distrust over the future of the American dollar . . . To the foreigner, much more than to Americans, the dollar is a symbol of this country's strength. A decline in the value of the dollar would suggest to him a decline in the faith and credit of the United States, signaling in his mind a decline not only in American economic strength but also in moral force."

The widely respected *Economist* of London reported March 7 that ". . . the guns have turned on the U. S. dollar. The chief executive of one of the big Zurich banks has wagered the chairman of the Federal Reserve Board a case of champagne that America will devalue the dollar in three years; he will be glad to lose his bet, but does not think he will."

We have at stake more than the difference between a 3.5 and 4% annual growth rate in GNP. Nations which aspire to world leadership cannot afford "creeping inflation." END

The Trends of Events

(Continued from page 3)

Acting Secretary of State, Christian Herter, to meet Mr. Macmillan as he stepped off his plane.

As the situation stands, there is much that needs clarification regarding promises made to Mr. Macmillan by Mr. Khrushchev on Hong Kong, trade agreements and Berlin, among other matters.

We would like to know too what transpired between Macmillan and Adenauer, remembering the unfriendly reception of Germany's President Theodor Heuss, who made it clear that West Germany would never make a Soviet deal when he visited London a short time ago. Also, what conclusion to the acrimonious discussions with West Germany regarding trade concessions to Britain under the Common Market agreements in Europe? Rivalry between Germany and Britain is not new, and was a matter of world concern before World War I.

Also, what was Mr. Mikhail A. Suslov and the high level Moscow delegation — including Leonid N. Soloviev, deputy chairman of the All-Union Central Council of Trade Unions; Boris N. Fonomaryov, a member of the editorial board of Kommunist; Pavel A. Satyukov, editor in-chief of Pravda; and Semyon A. Skachkov, chairman of the U.S.S.R. State Committee for Economic Relations with Foreign Countries — doing in London on their recent visit? Was it the follow-up to a trade agreement between Britain and Russia which had been discussed during Macmillan's visit in Moscow?

At any rate, a lot of clarification is called for under these circumstances, for it explains the difference in the aims between the United States and Britain, and the reasons for the frequent workings at cross purposes.

This is not to say that we do not understand the British position, but that this type of situation has come up in all our relations with that country's leaders following World War I and World War II, and now in the Cold War.

I would like to suggest that President Eisenhower call in Ex-President Hoover — Mr. Bernard M. Baruch—Mr. Lewis Strauss, among others — who have had active experience in their dealings with the British during the past several decades. We might refer President Eisenhower to Ex-President Hoover's recent book, dealing with the problems that broke President Wilson's heart when he went abroad to attend the Versailles Conference.

CHARLES BENEDICT

Editor's note: *The coming issue will contain a feature story on Hong Kong — its key position in import-export trade in Asia — its role in relation to Red China.*

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